



September 11, 2020

MR. JOHN GREENEWALD JR.  
SUITE 1203  
27305 WEST LIVE OAK ROAD  
CASTAIC, CA 91384

FOIPA Request No.: 1464977-000  
Subject: Saudi Arabian Oil Company

Dear Mr. Greenewald:

The enclosed 515 pages of records were determined to be responsive to your subject and were previously processed and released pursuant to the Freedom of Information Act (FOIA). Please see the selected paragraphs below for relevant information specific to your request as well as the enclosed FBI FOIPA Addendum for standard responses applicable to all requests.

- In an effort to provide you with responsive records as expeditiously as possible, we are releasing documents from previous requests regarding your subject. We consider your request fulfilled. Since we relied on previous results, additional records potentially responsive to your subject may exist. If this release of previously processed material does not satisfy your request, you may request an additional search for records. Submit your request by mail or fax to – Work Process Unit, 170 Marcel Drive, Winchester, VA 22602, fax number (540) 868-4997. Please cite the FOIPA Request Number in your correspondence.
- Please be advised that additional records responsive to your subject exist. If this release of previously processed material does not satisfy your request, you must advise us that you want the additional records processed. Please submit your response within thirty (30) days by mail or fax to—Work Processing Unit, 170 Marcel Drive, Winchester, VA 22602, fax number (540) 868-4997. Please cite the FOIPA Request Number in your correspondence. **If we do not receive your decision within thirty (30) days of the date of this notification, your request will be closed.**
- One or more of the enclosed records were transferred to the National Archives and Records Administration (NARA). Although we retained a version of the records previously processed pursuant to the FOIA, the original records are no longer in our possession.

If this release of the previously processed material does not satisfy your request, you may file a FOIPA request with NARA at the following address:

National Archives and Records Administration  
Special Access and FOIA  
8601 Adelphi Road, Room 5500  
College Park, MD 20740-6001

- Records potentially responsive to your request were transferred to the National Archives and Records Administration (NARA), and they were not previously processed pursuant to the FOIA. You may file a request with NARA using the address above. Please reference file number 65-HQ-56703 in your correspondence.

- One or more of the enclosed records were destroyed. Although we retained a version of the records previously processed pursuant to the FOIA, the original records are no longer in our possession. Record retention and disposal is carried out under supervision of the National Archives and Records Administration (NARA) , Title 44, United States Code, Section 3301 as implemented by Title 36, Code of Federal Regulations, Part 1228; Title 44, United States Code, Section 3310 as implemented by Title 36, Code of Federal Regulations, Part 1229.10.
- Records potentially responsive to your request were destroyed. Since this material could not be reviewed, it is not known if it was responsive to your request. Record retention and disposal is carried out under supervision of the National Archives and Records Administration (NARA) according to Title 44 United States Code Section 3301, Title 36 Code of Federal Regulations (CFR) Chapter 12 Sub-chapter B Part 1228, and 36 CFR 1229.10.
- Documents or information referred to other Government agencies were not included in this release.

Please refer to the enclosed FBI FOIPA Addendum for additional standard responses applicable to your request. **“Part 1”** of the Addendum includes standard responses that apply to all requests. **“Part 2”** includes additional standard responses that apply to all requests for records about yourself or any third party individuals. **“Part 3”** includes general information about FBI records that you may find useful. Also enclosed is our Explanation of Exemptions.

For questions regarding our determinations, visit the [www.fbi.gov/foia](http://www.fbi.gov/foia) website under “Contact Us.” The FOIPA Request Number listed above has been assigned to your request. Please use this number in all correspondence concerning your request.

If you are not satisfied with the Federal Bureau of Investigation’s determination in response to this request, you may administratively appeal by writing to the Director, Office of Information Policy (OIP), United States Department of Justice, 441 G Street, NW, 6th Floor, Washington, D.C. 20530, or you may submit an appeal through OIP’s FOIA STAR portal by creating an account following the instructions on OIP’s website: <https://www.justice.gov/oip/submit-and-track-request-or-appeal>. Your appeal must be postmarked or electronically transmitted within ninety (90) days of the date of my response to your request. If you submit your appeal by mail, both the letter and the envelope should be clearly marked "Freedom of Information Act Appeal." Please cite the FOIPA Request Number assigned to your request so it may be easily identified.

You may seek dispute resolution services by contacting the Office of Government Information Services (OGIS). The contact information for OGIS is as follows: Office of Government Information Services, National Archives and Records Administration, 8601 Adelphi Road-OGIS, College Park, Maryland 20740-6001, e-mail at [ogis@nara.gov](mailto:ogis@nara.gov); telephone at 202-741-5770; toll free at 1-877-684-6448; or facsimile at 202-741-5769. Alternatively, you may contact the FBI’s FOIA Public Liaison by emailing [foipaquestions@fbi.gov](mailto:foipaquestions@fbi.gov). If you submit your dispute resolution correspondence by email, the subject heading should clearly state “Dispute Resolution Services.” Please also cite the FOIPA Request Number assigned to your request so it may be easily identified.

Sincerely,



Michael G. Seidel  
Section Chief  
Record/Information  
Dissemination Section  
Information Management Division

Enclosure(s)

## FBI FOIPA Addendum

As referenced in our letter responding to your Freedom of Information/Privacy Acts (FOIPA) request, the FBI FOIPA Addendum provides information applicable to your request. Part 1 of the Addendum includes standard responses that apply to all requests. Part 2 includes standard responses that apply to requests for records about individuals to the extent your request seeks the listed information. Part 3 includes general information about FBI records, searches, and programs.

### Part 1: The standard responses below apply to all requests:

- (i) **5 U.S.C. § 552(c).** Congress excluded three categories of law enforcement and national security records from the requirements of the FOIPA [5 U.S.C. § 552(c)]. FBI responses are limited to those records subject to the requirements of the FOIPA. Additional information about the FBI and the FOIPA can be found on the [www.fbi.gov/foia](http://www.fbi.gov/foia) website.
- (ii) **Intelligence Records.** To the extent your request seeks records of intelligence sources, methods, or activities, the FBI can neither confirm nor deny the existence of records pursuant to FOIA exemptions (b)(1), (b)(3), and as applicable to requests for records about individuals, PA exemption (j)(2) [5 U.S.C. §§ 552/552a (b)(1), (b)(3), and (j)(2)]. The mere acknowledgment of the existence or nonexistence of such records is itself a classified fact protected by FOIA exemption (b)(1) and/or would reveal intelligence sources, methods, or activities protected by exemption (b)(3) [50 USC § 3024(i)(1)]. This is a standard response and should not be read to indicate that any such records do or do not exist.

### Part 2: The standard responses below apply to all requests for records on individuals:

- (i) **Requests for Records about any Individual—Watch Lists.** The FBI can neither confirm nor deny the existence of any individual's name on a watch list pursuant to FOIA exemption (b)(7)(E) and PA exemption (j)(2) [5 U.S.C. §§ 552/552a (b)(7)(E), (j)(2)]. This is a standard response and should not be read to indicate that watch list records do or do not exist.
- (ii) **Requests for Records about any Individual—Witness Security Program Records.** The FBI can neither confirm nor deny the existence of records which could identify any participant in the Witness Security Program pursuant to FOIA exemption (b)(3) and PA exemption (j)(2) [5 U.S.C. §§ 552/552a (b)(3), 18 U.S.C. 3521, and (j)(2)]. This is a standard response and should not be read to indicate that such records do or do not exist.
- (iii) **Requests for Records for Incarcerated Individuals.** The FBI can neither confirm nor deny the existence of records which could reasonably be expected to endanger the life or physical safety of any incarcerated individual pursuant to FOIA exemptions (b)(7)(E), (b)(7)(F), and PA exemption (j)(2) [5 U.S.C. §§ 552/552a (b)(7)(E), (b)(7)(F), and (j)(2)]. This is a standard response and should not be read to indicate that such records do or do not exist.

### Part 3: General Information:

- (i) **Record Searches.** The Record/Information Dissemination Section (RIDS) searches for reasonably described records by searching systems or locations where responsive records would reasonably be found. A standard search normally consists of a search for main files in the Central Records System (CRS), an extensive system of records consisting of applicant, investigative, intelligence, personnel, administrative, and general files compiled by the FBI per its law enforcement, intelligence, and administrative functions. The CRS spans the entire FBI organization, comprising records of FBI Headquarters, FBI Field Offices, and FBI Legal Attaché Offices (Legats) worldwide; Electronic Surveillance (ELSUR) records are included in the CRS. Unless specifically requested, a standard search does not include references, administrative records of previous FOIPA requests, or civil litigation files. For additional information about our record searches, visit [www.fbi.gov/services/information-management/foipa/requesting-fbi-records](http://www.fbi.gov/services/information-management/foipa/requesting-fbi-records).
- (ii) **FBI Records.** Founded in 1908, the FBI carries out a dual law enforcement and national security mission. As part of this dual mission, the FBI creates and maintains records on various subjects; however, the FBI does not maintain records on every person, subject, or entity.
- (iii) **Requests for Criminal History Records or Rap Sheets.** The Criminal Justice Information Services (CJIS) Division provides Identity History Summary Checks – often referred to as a criminal history record or rap sheet. These criminal history records are not the same as material in an investigative “FBI file.” An Identity History Summary Check is a listing of information taken from fingerprint cards and documents submitted to the FBI in connection with arrests, federal employment, naturalization, or military service. For a fee, individuals can request a copy of their Identity History Summary Check. Forms and directions can be accessed at [www.fbi.gov/about-us/cjis/identity-history-summary-checks](http://www.fbi.gov/about-us/cjis/identity-history-summary-checks). Additionally, requests can be submitted electronically at [www.edo.cjis.gov](http://www.edo.cjis.gov). For additional information, please contact CJIS directly at (304) 625-5590.
- (iv) **National Name Check Program (NNCP).** The mission of NNCP is to analyze and report information in response to name check requests received from federal agencies, for the purpose of protecting the United States from foreign and domestic threats to national security. Please be advised that this is a service provided to other federal agencies. Private Citizens cannot request a name check.

## EXPLANATION OF EXEMPTIONS

### SUBSECTIONS OF TITLE 5, UNITED STATES CODE, SECTION 552


- (b)(1) (A) specifically authorized under criteria established by an Executive order to be kept secret in the interest of national defense or foreign policy and (B) are in fact properly classified to such Executive order;
- (b)(2) related solely to the internal personnel rules and practices of an agency;
- (b)(3) specifically exempted from disclosure by statute (other than section 552b of this title), provided that such statute (A) requires that the matters be withheld from the public in such a manner as to leave no discretion on issue, or (B) establishes particular criteria for withholding or refers to particular types of matters to be withheld;
- (b)(4) trade secrets and commercial or financial information obtained from a person and privileged or confidential;
- (b)(5) inter-agency or intra-agency memorandums or letters which would not be available by law to a party other than an agency in litigation with the agency;
- (b)(6) personnel and medical files and similar files the disclosure of which would constitute a clearly unwarranted invasion of personal privacy;
- (b)(7) records or information compiled for law enforcement purposes, but only to the extent that the production of such law enforcement records or information ( A ) could reasonably be expected to interfere with enforcement proceedings, ( B ) would deprive a person of a right to a fair trial or an impartial adjudication, ( C ) could reasonably be expected to constitute an unwarranted invasion of personal privacy, ( D ) could reasonably be expected to disclose the identity of confidential source, including a State, local, or foreign agency or authority or any private institution which furnished information on a confidential basis, and, in the case of record or information compiled by a criminal law enforcement authority in the course of a criminal investigation, or by an agency conducting a lawful national security intelligence investigation, information furnished by a confidential source, ( E ) would disclose techniques and procedures for law enforcement investigations or prosecutions, or would disclose guidelines for law enforcement investigations or prosecutions if such disclosure could reasonably be expected to risk circumvention of the law, or ( F ) could reasonably be expected to endanger the life or physical safety of any individual;
- (b)(8) contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions; or
- (b)(9) geological and geophysical information and data, including maps, concerning wells.

### SUBSECTIONS OF TITLE 5, UNITED STATES CODE, SECTION 552a

- (d)(5) information compiled in reasonable anticipation of a civil action proceeding;
- (j)(2) material reporting investigative efforts pertaining to the enforcement of criminal law including efforts to prevent, control, or reduce crime or apprehend criminals;
- (k)(1) information which is currently and properly classified pursuant to an Executive order in the interest of the national defense or foreign policy, for example, information involving intelligence sources or methods;
- (k)(2) investigatory material compiled for law enforcement purposes, other than criminal, which did not result in loss of a right, benefit or privilege under Federal programs, or which would identify a source who furnished information pursuant to a promise that his/her identity would be held in confidence;
- (k)(3) material maintained in connection with providing protective services to the President of the United States or any other individual pursuant to the authority of Title 18, United States Code, Section 3056;
- (k)(4) required by statute to be maintained and used solely as statistical records;
- (k)(5) investigatory material compiled solely for the purpose of determining suitability, eligibility, or qualifications for Federal civilian employment or for access to classified information, the disclosure of which would reveal the identity of the person who furnished information pursuant to a promise that his/her identity would be held in confidence;
- (k)(6) testing or examination material used to determine individual qualifications for appointment or promotion in Federal Government service the release of which would compromise the testing or examination process;
- (k)(7) material used to determine potential for promotion in the armed services, the disclosure of which would reveal the identity of the person who furnished the material pursuant to a promise that his/her identity would be held in confidence.

This document is made available through the declassification efforts  
and research of John Greenewald, Jr., creator of:

# The Black Vault



The Black Vault is the largest online Freedom of Information Act (FOIA)  
document clearinghouse in the world. The research efforts here are  
responsible for the declassification of hundreds of thousands of pages  
released by the U.S. Government & Military.

**Discover the Truth** at: <http://www.theblackvault.com>

FEDERAL BUREAU OF INVESTIGATION  
FOI/PA  
DELETED PAGE INFORMATION SHEET  
FOI/PA# 1464977-0

Total Deleted Page(s) = 13

- Page 34 ~ b6; b7C; b7E;
- Page 35 ~ b7E;
- Page 36 ~ b7E;
- Page 37 ~ b6; b7C; b7E;
- Page 38 ~ b7E;
- Page 67 ~ Duplicate;
- Page 69 ~ Duplicate;
- Page 71 ~ Duplicate;
- Page 72 ~ Duplicate;
- Page 73 ~ Duplicate;
- Page 74 ~ Duplicate;
- Page 75 ~ Duplicate;
- Page 76 ~ Duplicate;

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FEDERAL BUREAU OF INVESTIGATION  
FOI/PA  
DELETED PAGE INFORMATION SHEET  
FOI/PA# 1362317-0

Total Deleted Page(s) = 13

- Page 34 ~ b6; b7C; b7E;
- Page 35 ~ b7E;
- Page 36 ~ b7E;
- Page 37 ~ b6; b7C; b7E;
- Page 38 ~ b7E;
- Page 67 ~ Duplicate;
- Page 69 ~ Duplicate;
- Page 71 ~ Duplicate;
- Page 72 ~ Duplicate;
- Page 73 ~ Duplicate;
- Page 74 ~ Duplicate;
- Page 75 ~ Duplicate;
- Page 76 ~ Duplicate;

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NOTE: Hand print names legibly; handwriting satisfactory for remainder.

Indices:  Negative  See below

Subject's name and aliases  
**UNSUB ;**  
**POSSIBLE WIRE TRANSFER**  
**FROM FIRST CITY NATIONAL**  
**BANK , HOUSTON, TEXAS ;**  
**ARAMCO - VICTIM**

Character of case  
**FBW**  
**ARAMCO**  
 Personal  Telephonic Date **9/3/81** Time **10 <sup>10</sup>/<sub>A</sub>**

Address of subject

Complainant's address and telephone number  
**1100 MILAM, 39<sup>TH</sup> FLOOR**  
**HOUSTON, TEXAS**

|                            |      |   |        |      |            |            |
|----------------------------|------|---|--------|------|------------|------------|
| Subject's Description      | Race | Sex<br><input type="checkbox"/> Male<br><input type="checkbox"/> Female | Height | Hair | Build      | Birth date |
|                            | Age  |   | Weight | Eyes | Complexion |            |
| Scars, marks or other date |      |   |        |      |            |            |

Fac [redacted] CALLED FROM FIRST CITY NATIONAL BANK [redacted] UNSUB HAS CALLED BANK ON A COUPLE OF OCCASIONS AND HAS IDENTIFIED HIMSELF AS [redacted] OF INVESTMENTS FOR ARAMCO. WHEN

HE CALLS, HE CONFIRMS ACCOUNT NUMBER OR SPECIFIC INFORMATION ASSOCIATED WITH A WIRE TRANSFER OUT OF ARAMCO'S GENERAL (WHICH CONTAINS UPWARD OF \$100,000,000). FACT IS ..... ① [redacted] HAS NEVER CALLED ② UNSUB HAS CORRECT ACCOUNT INFORMATION THAT HE IS CONFIRMING ③ UNSUB IS AWARE OF CORRECT "TIME FRAME SET UP" TO ACTIVATE TRANSFER.

[redacted] BELIEVES UNSUB HAS ALL THIS INFORMATION AS A RESULT OF HAVING BEEN (OR IS CURRENTLY) AN ARAMCO CONTRACTOR OR EMPLOYEE.

Action Recommended [redacted]

196B-952-1

SEARCHED INDEXED  
SERIALIZED FILED

SEP 3 1981

FBI - HOUSTON

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b6  
b7C

b6  
b7C



ARAMCO'S SPECIAL AUDIT GROUP HAS BEEN INVESTIGATING THIS MATTER AND HAS UNSUB'S LAST TWO TELEPHONE CALLS RECORDED. VOICE PRINTING HAS FAILED TO IDENTIFY UNSUB. ORIGIN OF CALLS IS ALSO UNKNOWN.

MOST RECENT CALL (THIS MORNING, 9/3/81) NOW ALARMS ARAMCO, IN THEIR OPINION, UNSUB INTENDS TO WIRE TRANSFER MONEY OUT OF ARAMCO'S ACCOUNT EITHER THIS AFTER-NOON OR TOMORROW. DESTINATION OF THE FUNDS COULD BE ANYWHERE BUT UNSUB HAS GIVEN INDICATIONS OF PERHAPS LONG BEACH OR SF, CALIF.

TO DATE, THEY HAVE BEEN "GOING ALONG" WITH THE CALLS AND THEY INTEND TO CONTINUE IN THIS REGARD ..... EVEN TO THE EXTENT OF ALLOWING THE TRANSFER TO TAKE PLACE. THEREAFTER THEY WOULD CALL THE RECEIVING BANK TO SHORTSTOP THE RELEASE OF THE FUNDS FROM THE RECEIVING BANK. PREFERABLY, THEY ARE REQUESTING FBI ASSISTANCE TO IMMEDIATELY ACT AT THE LOCATION OF THE RECEIVING BANK.

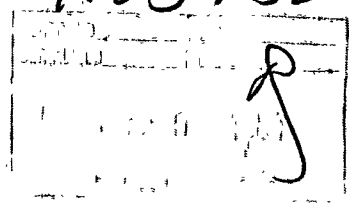
WRITER STATED FBI WOULD RECONTACT HIM LATER THIS MORNING.

(Title) \_\_\_\_\_  
 (File No.) 196B-952-118

| Item | Date Filed | To be returned |    | Notes                              | position |
|------|------------|----------------|----|------------------------------------|----------|
|      |            | Yes            | No |                                    |          |
| 191  | 1/5/81     | X              |    | Items dated 9/2/81 for [redacted]  |          |
| 192  | "          | X              |    | 1 copy of wire transfer [redacted] |          |
| 193  | "          | X              |    | Arames report dated 9/4/81         |          |
| 194  | 5/12/82    | ✓              |    | Notes                              |          |
| 195  | ✓          | ✓              |    | Notes                              |          |
| 196  | ✓          | ✓              |    | Notes                              |          |
| 197  | ✓          | ✓              |    | Notes                              |          |
| 198  | ✓          | ✓              |    | Notes                              |          |
| 199  | ✓          | ✓              |    | Notes                              |          |
| 1A10 | 1/1/82     | ✓              |    |                                    |          |
|      |            |                |    |                                    |          |
|      |            |                |    |                                    |          |
|      |            |                |    |                                    |          |
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196B-952-118



~~SENSITIVE~~

FILE NUMBER: 196-0000952  
DESCRIPTION: FD192 RE:1B2((2)10"SCOTCH 3M REEL AUDIO RECORDING TAPES)  
DESTROYED PER SSA [REDACTED] ON 1/16/92 VDT (SEE MEMO  
DATED 1/11/92) (SEE 1A10)

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LOCATION: ECR1/BINH/SHELF9  
BARCODE: E0234231  
ANTICIPATED DISPOSITION: DESTROYED  
DISPOSITION:  
PREVIOUS BARCODE:

EVIDENCE TYPE: G  
SPECIAL HANDLING:  
ANTICIPATED DISPOSITION DATE: 01161992  
DISPOSITION DATE:  
GRAND JURY MATERIAL: N

<GO> - CONTINUE F2 - SUMMARY F4 - CHAIN F6 - DIVIDE F9 - MODIFY  
F1 - REQUERY F3 - GROUP F5 - MISC F8 - DELETE F10 - EVIDENCE

~~SENSITIVE~~

4A NUM

#17

~~SENSITIVE~~

FILE NUMBER: 196-0000952

DESCRIPTION: FD192 RE:1B2 DESTROYED PER SSA [REDACTED] ON 1/16/92 VDT  
(SEE MEMO DATED 1/11/92)(SEE 1A10)

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b7c

LOCATION: FILE/1A0010

EVIDENCE TYPE: G

BARCODE:

SPECIAL HANDLING:

ANTICIPATED DISPOSITION: DESTROYED

ANTICIPATED DISPOSITION DATE: 01161992

DISPOSITION:

DISPOSITION DATE:

PREVIOUS BARCODE:

GRAND JURY MATERIAL: N

RECORD MODIFIED

<GO> - CONTINUE F2 - SUMMARY

F6 - DIVIDE F9 - MODIFY

F1 - REQUERY F3 - GROUP F5 - MISC

F8 - DELETE F10 - EVIDENCE

~~SENSITIVE~~

4A

NUM

#17

Field File No. 196 B 952 - 1A1

OO and File No. 40 196 B 952

Date Received 9-2-81

From [Redacted]

[Redacted]

(ADDRESS OF CONTRIBUTOR)

[Redacted] (DATE)

By TR [Redacted] (AGENT)

To Be Returned  Yes  No

Receipt Given  Yes  No

Description:

Memo dated 9-2-81.

from [Redacted]

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# OFFICE MEMORANDUM

September 2, 1981

TO :   
FROM :   
SUBJECT: ARAMCO

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On 9-2-81,  received a phone call from a  who claimed he was from Aramco. He did not give or try to give a wire transfer just asked a lot of questions pertaining to:

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Is he still able to wire transfer?  
Is he still on the Card?  
What accounts can he debit?

from Communications is getting us a recording of conversation.

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will listen to the recording on 9-3-81 in my office.

9-3-81 at 9:40 AM a  called again, I talked to the man and informed him he was authorized to make transfers. He said he would call back. He kept asking for our deadline time. At 1:25 PM, on 9-3-81, the gentleman called in a wire transfer for \$489,524.00 going to Farmers & Merchants Bank, Long Beach, California, Pine Ave., further credit Monex  reference attention,  account  reference

Field File No. 196 B 952 -1A2

OO and File No. HO 196 B 952

Date Received 9-2-81

From

(NAME OF CONTRIBUTOR)

1<sup>st</sup> CTY NHTL BK  
(ADDRESS OF CONTRIBUTOR)

By  (STATE)

(NAME OF SPECIAL AGENT)

To Be Returned  Yes  
 No

Receipt Given  Yes  
 No

Yes  
 No

Grand Jury Material-  
Disseminate Only  
Pursuant to Rules  
6(e), Federal Rules  
of Criminal Procedure

Description:

ONE COPY OF  
WIRE TRANSFER

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696193

WIRE TRANSFER  
INSTRUCTION MEMO/TELEPHONE TRANSFERS  
10793 (REV. 4/76)

4231

DATE 9-3-81 TIME 1:25

BANK WIRE     FED WIRE     TELEX TWX

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|              |    |                                      |       |
|--------------|----|--------------------------------------|-------|
| WIRE TO:     | 01 |                                      |       |
|              | 02 | <del>Monet</del> Farmers & Merchants |       |
|              | 04 | Longbeach CALIF.                     |       |
|              |    | Pine Ave Branch                      |       |
| AMOUNT       | 05 | 489,524.00                           |       |
| CHARGE       | 07 | Aramco - 00-0241-0                   |       |
| ORDER OF     |    |                                      |       |
| CREDIT OF    | 08 | Monet                                |       |
|              |    | REF. Attn                            | Acct. |
| SPECIAL INST |    |                                      |       |

CLERK: EM



Field File No. 196 B 952-1A3

OO and File No. HO 196 B 952

Date Received 9-4-81

From [Redacted]  
(NAME OF CONTRIBUTOR)

HARAMCO  
(ADDRESS OF CONTRIBUTOR)

MO TX  
(CITY AND STATE)

By [Redacted]  
(NAME OF SPECIAL AGENT)

To Be Returned  Yes  
 No

Receipt Given  Yes  
 No

Description:

HARAMCO REPORT  
DATED 9-4-81

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# ARAMCO SERVICES COMPANY

1100 Milam, Houston, Texas 77002

September 4, 1981

Federal Bureau of Investigation  
Houston, Texas

Attn: Special Agent

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Attached are memoranda from our files which detail our inquiries into the fraudulent wire transfer attempt. They contain the following information:

- Exhibit A - Summary of events up to April 2, 1981
- Exhibit B - Details of telephone call on March 13, to  Treasurer's Dept.
- Exhibit C - Details of call on March 13, to   wherein she gave caller First City General account number.
- Exhibit D - Calls on March 16 and 17 detailed
- Exhibit E - Call on March 13 wherein caller found out where certain treasury personnel worked.
- Exhibit F - Summary of events
- Exhibit G - Memo concerning calls written by Treasurer's Dept. showing first contact with First City Wire Department was on March 17.
- Exhibit H - Memo reflecting one call came from public phone booth on campus of Florida State University.
- Exhibit I - Memo reflecting attempt to obtain balance in general account at First City
- Exhibit J - More detail on above call (see Ex. I)

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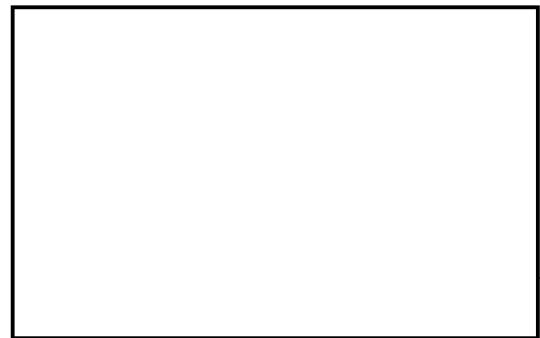
September 4, 1981  
Page 2

Exhibit K - D&B report on Monex

Exhibit L - Transcription of call received by

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Interviews with  ASC Banking Division, and   
 disclosed that to their knowledge, ASC has not conducted any  
business with Monex,  or directly with the Farmers and  
Merchants Bank.



~~CONFIDENTIAL~~

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ARAMCO  
SERVICES COMPANY  
1100 MILAM  
HOUSTON, TEXAS 77002

April 2, 1981

[redacted]

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Room T-466; Tower Building  
Arabian American Oil Company  
Dhahran, Saudi Arabia

Subject: Attempt to Secure Sensitive ASC Data Regarding  
Electronic Transfer of Aramco Funds

Dear [redacted]

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The following summary relating to the efforts of an individual to secure information concerning Aramco/ASC banking relationships is furnished pursuant to the April 2, 1981 telephonic request of [redacted]

During the period March 13-17, 1981, several representatives of the ASC Treasurer's Department received telephone calls from a person or persons representing themselves as employees of the Houston National Bank or First City National Bank of Houston. The person or persons used the names of [redacted]

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[redacted] in the telephonic contacts with ASC Treasurer's Department. Generally the contacts related to efforts to secure information or confirmation of information pertaining to Aramco/ASC banking activities and electronic fund transfers. During one contact, the individual was given the account number of the Aramco/ASC general account at the First City National Bank of Houston when he represented himself as a bank employee and asked to which account a \$1.2 million deposit he was receiving from Dhahran should be made. Special Audits and ASC Treasurer representatives contacted representatives at First City National Bank of Houston and a "call back procedure has been confirmed to ensure that Aramco/ASC funds are only transferred based on authorized request received from ASC". It was also learned that a person or persons using the name [redacted] and representing themselves as an Aramco Treasurer's representative from Dhahran or ASC had telephonically contacted the Houston National Bank and First City National Bank of Houston attempting to secure Aramco/ASC banking data. [redacted] is employed in [redacted] [redacted] but did not make the call to the Houston Bank in question.

A Houston National Bank representative inadvertently confirmed the appropriate balance in the ASC account when asked if the balance was still in the realm of \$99,000-\$100,000.

The person or persons making the contact with ASC and the two Houston banks has not requested a transfer of funds to be made from Aramco/ASC accounts although bank representatives suspect

Exhibit A.

[REDACTED]  
April 2, 1981  
Page Two.

that was what the person intended to do at some future date.

All banking facilities with whom Aramco/ASC has financial relationships and Aramco Treasurer Organization have been telephonically alerted by ASC regarding the unauthorized attempts to gather Aramco/ASC financial information. A copy of ASC letters confirming the telephonic alert are attached. It appears that ASC has taken all necessary action to ensure that no unauthorized transfers of Aramco/ASC funds are made.

Representatives of the Houston National Bank, on their own, intend to attempt to identify the person or persons by pretending to agree to make any transfer that may be requested in the future and have authorities intercept the person or persons that contact the financial activity designated to receive the funds. This approach is to be accomplished by the bank with no Aramco/ASC involvement and no Aramco/ASC funds will be used.

Special Audits intends to examine a sample of electronic fund transfers made during the preceeding 30-60 days to verify established procedures are being followed. The examination will include verification with the appropriate banks to determine if only authorized transfers of Aramco/ASC funds have been made.

Yours truly,

ARAMCO SERVICES COMPANY

[REDACTED]

b6  
b7C

RAJ:JCS/jg

cc: [REDACTED]

# ARA.MCO.SERVICES CO. COMPANY

1100 Milam Houston, Texas 77002

March 17, 1981

[Redacted]

~~CONFIDENTIAL~~

[Redacted]

International Division  
Crocker National Bank  
P.O. Box 38010  
San Francisco, CA 94138

Dear [Redacted]

During the last few days, several members of our staff and an officer of one of the Houston banks have received phone calls from a person or persons variously identifying themselves as [Redacted]

They have represented themselves as an employee of either our Dhahran Treasurer's Organization, Houston National Bank or First City National Bank. Our initial investigation reveals that no such individuals exist.

These persons have attempted, through various ruses, to obtain information about Aramco's banking relationships and seem to be familiar with the names of several individuals in ASC's Treasurer's Department. At present, these attempts appear to be limited to the Houston area. We do not know how these persons might attempt to utilize any information they obtain.

We would appreciate your assistance by alerting appropriate personnel in your organization of these attempts and directing them to refer any unusual inquiries to you. If you should be contacted, we would appreciate your advising us as soon as possible. Conversely, we will inform you of any new developments.

Very truly yours,

[Redacted Signature]

Treasurer's Department

MRC/sml

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b7C

b6  
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b7C

M E M O R A N D U M

~~CONFIDENTIAL~~

b6  
b7C

Houston, Texas

March 20, 1981

TO: [redacted]

b6  
b7C

FROM: [redacted]

SUBJECT: Telephonic Attempts to obtain Information from ASC Treasurer's

[redacted] ASC Treasurer's Department, was interviewed concerning the person who was attempting to solicit data on ASC Treasurer's bank accounts. She advised essentially as follows:

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A call came in on [redacted] line on March 13, 1980 at about 3:00 p.m., and the Operator asked if she would accept a call from [redacted]. She responded that she did not know of anyone by that name and did not feel right about accepting a collect call. The person placing the call, a male, then came on the line and said, very rudely, "if you feel that sarcastic, I'll hang up", and he did hang up. She was rather surprised at that response and asked a person sitting at her desk if she had been arbitrary or sarcastic during the conversation. She was assured the tone of her voice was not unusual.

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[redacted] thought the call was unusual in that the Operator did not give the caller's full name or origin of the call. She did not remember anything especially distinguishing about the voice, no ethnic or regional dialect. She is convinced the call was, in fact, a long-distance call because [redacted] voice sounded more distant than a local call. She has heard that others in the Treasurer's Department also received calls, and feels her's was from the same person. She has not listened to tapes of other calls to the office.

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[redacted]

b6  
b7C

RLL:jg

MEMORANDUM

~~CONFIDENTIAL~~

b6  
b7C

Houston, Texas

March 20, 1981

TO: [redacted]

b6  
b7C

FROM: [redacted]

SUBJECT: Telephonic Attempts to Obtain Information from ASC  
Treasurer's Department

-----  
[redacted] ASC Treasurer's Department, stated  
substantially as follows:

b6  
b7C

On Friday, 3/13/81, at approximately 12 Noon, she received a telephone call on Extension 5979 from a man who identified himself as [redacted] of First City National Bank. She thought he may have first asked for [redacted] who was then out for lunch. The caller said he was expecting a transfer of \$1,200,000 from Dhahran and asked for ASC's First City National Bank account number. She asked him which one and he said any of them, just so they could complete the transfer. She then gave the First City National general account number. The caller said, "Yes, I have it on my CRT". She realized the conversation was unusual and told the caller he could talk to [redacted] and put him on hold. [redacted] had just walked up to her and she told him of the call. [redacted] told her that the caller had no business asking about ASC account numbers. She then put the caller back on line and he said he had already spoken to [redacted]. She told him that he had better talk to [redacted]. He asked what time he would return and she said about 30 minutes. She asked for his number and he said "658- " and then there was a click on the line and no further response. She assumed he had hung up.

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b7C

On Tuesday, March 17, the same person called back and asked for [redacted]. He identified himself as [redacted] Houston National Bank. She transferred the call to [redacted] and told [redacted] "that kook is on the line again". Although he gave a different name and identity, she is certain he is the same person she spoke to on the previous Friday, March 13.

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b7C

She described the voice as deep and guttural and sluggish; i.e., pauses between words as if he was not familiar with the English language. She thought he had an accent, but she could not identify it to a particular area, country or ethnic origin. During the conversation on March 13, she heard clicking sounds, which she could not specifically identify.

[redacted]  
Special Audits

b6  
b7C

RLl:jg

[redacted]  
Exhibit C



M E M O R A N D U M

~~CONFIDENTIAL~~

b6  
b7C

Houston, Texas

March 20, 1981

TO: [redacted]

b6  
b7C

FROM: [redacted]

SUBJECT: Telephonic Attempts to Obtain Information from ASC  
Treasurer's Department

[redacted] Treasurer's Department, said she received three collect calls from [redacted] on Friday, March 13, 1981, and she refused to accept them all.

b6  
b7C

On Monday, March 16, she received a call from [redacted] who represented himself as [redacted] from the Houston National Bank. He knew ASC's account number with Houston National Bank and knew the balance of \$99,000. His conversation generally was to get information on wire transfers to Saudi Arabia. She told him there was very little reason to transfer funds to Saudi, especially from that account. He also knew that ASC had an account with First City National Bank. The tone of his voice was very abrupt, especially when her responses were not specific to his questions.

On Tuesday, March 17, the same voice called, but represented himself as [redacted] with Houston National Bank. There was very little conversation until she asked him to hold for a moment. She got [redacted] plugged in a dictaphone, and then got him back on line. The balance of the conversation was recorded.

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b7C

[redacted] said she had previously written up her experiences with this caller at the specific request of [redacted] and she would provide Special Audits with a copy. For this reason, the above is skeletonized as to her conversation with the caller.

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b7C

She said the caller seemed to have knowledge of financial transactions, but his conversations were obvious attempts to gain additional specific information concerning ASC-Aramco fund transfers. He was not very courteous and therefore she did not believe his contention that he was a bank employee. He was aware, however, that only certain ASC persons had transfer approval authority.

She has knowledge that the same or similar unauthorized attempts for financial data is being made at the Houston Natural Gas Company. She obtained this knowledge from a friend who works for the Federal Reserve Bank in Houston.

[redacted]  
Special Audits

b6  
b7C

RLL:jg

[redacted]  
Exhibit D

M E M O R A N D U M

~~CONFIDENTIAL~~

b6  
b7C

Houston, Texas

March 23, 1981

TO:

[redacted]

Special Audits

*[Handwritten initials]*

b6  
b7C

FROM:

[redacted]

Special Audits

SUBJECT: Telephonic Attempts to obtain Information from ASC Treasurer's Department

-----  
[redacted] Treasurer's Department, was interviewed concerning telephone calls she received from a person attempting to solicit information about ASC bank accounts. She furnished substantially as follows:

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On Friday, 3/13/81, at approximately 1:30 p.m., she received a collect telephone call for [redacted]. She told the operator [redacted] was out of town and asked the nature of the call so it could possibly be transferred to someone else. The operator said she could not permit a discussion with the caller unless the call was accepted. At that point the caller, a male, came on the line and commented that he would not discuss his business with anyone other than ASC people. The comment was made with a tone of authority and [redacted] then accepted the call.

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b7C

The caller asked for the telephone number and mailing address of Aramco in Saudi Arabia. She told him P. O. Box 5000, Dhahran and gave him the Aramco switchboard number in Dhahran. He then said he had several names, and named [redacted]. [redacted] told him those persons were in Houston, not in Saudi Arabia.

b6  
b7C

She thought nothing more of the call until later that afternoon when she learned that others in the office had also received calls. She did not remember if the name of the caller or origin of the call was mentioned, but she is certain the call was long distance because the voice was fainter than the operator's and she heard clicking sounds during the conversation. She thought those were similar to switching sounds frequently heard on long-distance calls. She recalled no distinguishing voice characteristics such as accents or dialects. The tone was business-like in all respects. In naming the Treasurer's Department employees, above, he correctly used the nicknames [redacted] and [redacted] as if he knew of them.

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b7C

[redacted]

RLL:jg

Exhibit E

Houston, Texas

March 23, 1981

TO: File

FROM: [redacted]

Special Audits

b6  
b7c

SUBJECT: Attempt to Secure Sensitive ASC Data Regarding Electronic Transfer of Aramco Funds

1. On 3/16/81, [redacted] and [redacted] related that an individual representing himself as [redacted] a First City National Bank representative, had telephonically contacted [redacted] [redacted] earlier this date inquiring where a \$1.2 million electronic fund transfer was to be made. [redacted] based on knowledge of ASC/Aramco relations, knew that sums of money in that proportion are not transferred from Aramco to ASC. However, he informed [redacted] that it would take about 15 minutes in order for him to review the banking journals to determine to which account the deposit should be made and asked for the telephone number where [redacted] could be contacted. After some delay, [redacted] reluctantly gave the number [redacted] as being his office number. [redacted] subsequently contacted [redacted] First City National Bank, who determined that [redacted] was not located at [redacted] a First City National Bank telephone number. [redacted] conducted additional research and determined that a [redacted] is not employed at First City National Bank of Houston.

b6  
b7c

[redacted] advised that [redacted] and [redacted] ASC Treasurer employees, had also been contacted by an individual identifying himself as [redacted] believed that [redacted] had received the phone call on Friday, 3/13/81, and she had inadvertently provided the caller the ASC general account number maintained at the First City National Bank. [redacted] received a collect telephone call on 3/13/81. [redacted] believes [redacted] received a phone call from [redacted] on 3/13/81. He believes she received another call from the same individual identifying himself as [redacted] on 3/16/81.

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In response to [redacted] and [redacted] question as to what action should be initiated by ASC, it was suggested that all ASC banking institutions be contacted telephonically and alerted to the fact that an individual using various identifications is attempting to secure data relating to ASC bank accounts. The points of contact at those banking institutions should also be alerted not to honor any requests for electronic transfer of funds unless the individual making the contact is recognized as an ASC representative authorized to make electronic transfer requests.

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b7c

2. On 3/17/81, [redacted] advised that during contact with [redacted] Houston National Bank, and [redacted] First City National Bank of Houston, it was learned that an individual calling himself [redacted] had made contacts with the bank inquiring concerning ASC accounts. During these contacts, [redacted] represented himself as being with

b6  
b7c

Exhibit F

Aramco Treasurer's office, Saudi Arabia. [redacted] was contacted on 3/13 and also 3/17. The date of first contact at the First City National Bank was not clear. [redacted] subsequently advised that [redacted] had received an additional call from [redacted] on 3/17. [redacted] represented himself as being with the Houston National Bank Auditing Department and was attempting to secure information regarding ASC representatives authorized to make electronic transfer of funds. [redacted] advised he had completed the notification of ASC banking contacts in Houston, New York and San Francisco to alert them that an individual was attempting to secure unauthorized banking data. [redacted] advised that each of the banking institutions were being informed in writing concerning the attempts to secure banking data by unauthorized individuals and provided a copy of each of the letters.

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3. On 3/18/81, [redacted] advised that Aramco Treasurer's office had been notified in writing concerning this matter. A copy of the written notification was furnished by [redacted].

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4. On 3/17/81, [redacted] Houston National Bank, advised that he was first contacted by [redacted] on 3/13/81. [redacted] represented himself as being employed in the Treasurer's office, Aramco, Saudi Arabia. [redacted] asked if the written authorizations to make electronic transfer of funds for [redacted] and [redacted] were on file at the Houston National Bank. [redacted] advised he informed [redacted] that the five individuals named were authorized to make electronic transfers. However, no written authorizations are on file because the bank did not require them. [redacted] insisted that [redacted] require ASC to provide written authorization to the Houston National Bank for these five individuals to make electronic transfer of funds. [redacted] advised he agreed and forwarded a letter to [redacted] on 3/13/81, requesting the attached authorization forms be completed by [redacted] and [redacted] and returned to the Houston National Bank for file. [redacted] said during subsequent contact with [redacted] he determined that [redacted] had also made contact with ASC representatives attempting to secure banking data. [redacted] had represented himself as being a banking representative during the contact with ASC. In conclusion, [redacted] advised he has taken necessary steps to ensure that ASC funds are not transferred unless the request of such transfer is made by an authorized ASC representative. [redacted] advised he was securing advice and counsel from the Houston National Bank Legal Department and Security Department and he intends to attempt to identify the individual trying to secure ASC banking data.

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[redacted]  
Special Audits

b6  
b7C

~~CONFIDENTIAL~~

b6  
b7C

MEMORANDUM  
Houston, Texas  
March 30, 1981

TO: Treasurer  
ASC

Attempted Wire Transfer Fraud

During the past few days, an individual (or individuals) utilizing several identities and ruses has contacted ASC Treasurer's Department personnel and two Houston banks in an attempt to obtain information about Aramco's banking relationships. The following chronology reconstructs and summarizes the contacts of this nature of which we are aware and the content of each:

Friday, March 13, 1981

[redacted] received three collect telephone calls in rapid succession on Friday morning. In each case the operator identified the caller as [redacted]. In the first instance, the operator indicated that the call was for [redacted] responded that there was no such person in the office, but there was a [redacted]. When the caller attempted to speak directly to [redacted] the operator interrupted and broke the connection. When he called the second time, he immediately attempted to speak to [redacted] and the operator terminated the call. On the third call, the operator indicated that the call was for [redacted] explained that we could not accept collect calls and the conversation was ended.

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Later that morning, we received a call from [redacted] Houston National Bank, who informed us that he had received a phone call from someone who identified himself as [redacted] of "Treasury Services" in Dhahran (see letter). [redacted] had instructed [redacted] to send the necessary documents to us to authorize the bank to accept telephone instructions for wire transfers from [redacted] and [redacted] was informed by us that this was an "unusual" request, but was instructed to send the documents to our attention. [redacted] later acknowledged that he had inadvertently either confirmed or provided the names of the above ASC employees.

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About 1:30 p.m., [redacted] accepted a collect call for [redacted] (who was in Arabia) from an unidentified individual who wished to know the telephone number and mailing address of the Dhahran headquarters. He then asked where [redacted] and [redacted] worked. This information was provided and it was confirmed that these individuals were assigned to the Houston offices.

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Monday, March 16, 1981

[redacted] received a call from an individual identifying himself as [redacted] of Houston National Bank. He seemed to be aware of

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Exhibit 6

general balance levels maintained at HNB and asked very pointedly if we maintained accounts with other banks in the Houston area. This question was answered in the affirmative.

Both [redacted] and [redacted] subsequently received collect calls from a [redacted] which they refused to accept.

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Later in the afternoon, [redacted] received a call from an individual representing himself as an employee of First City National Bank. The caller indicated that the bank had received \$1.2 million from Dhahran and wished to know to which account it was to be credited. It was indicated that it should probably be credited to the general account, but that we were not excepting such a transfer and would have to research it and call him back. He requested the account number, which was declined, and reluctantly provided his name and phone number [redacted] at [redacted]. He called back several minutes later and attempted to obtain this information from another employee.

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At this point, [redacted] at First City National Bank was contacted and, after some research, reported that FCNB had no such employee. The phone number was a valid FCNB line, but not that of the Wire Transfer Department. Our Corporate Security Division was advised and apprised of the contacts. All of our Houston area banks of account were then notified and the New York and San Francisco banks were contacted the following morning. A confirming letter was subsequently sent to all of the banks and appropriate Treasurer's staff members were advised.

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Tuesday, March 17, 1981

Late in the morning, an individual identifying himself as [redacted] of the Houston National Bank Auditing Department called [redacted] and inquired as to whether or not we had received the authorization forms for wire transfers. He was advised that we had not and he indicated that he would call [redacted]. When asked for his telephone number he gave [redacted] which, when called, was the Houston National Bank Data Processing Department. An inquiry with [redacted] revealed that HNB did not have an employee by the name of [redacted]. (This conversation with [redacted] was recorded on Department dictation equipment.)

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Later that day, we learned that First City National Bank's Wire Transfer Department had been contacted by a person who identified himself as [redacted] [redacted] from Aramco." He attempted to obtain the names of those persons authorized to make wire transfers and, apparently, would have attempted to request such a transfer if [redacted] had been an authorized employee.

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b7C

Thursday, March 19, 1981

[redacted] and [redacted] joined [redacted] at First City Bank and, at their wire transfer section, listened to the taped conversation with the person purporting to be [redacted] requesting the transfer. It appeared that this voice and the voice recorded on the ASC tape of March 17 were the same.

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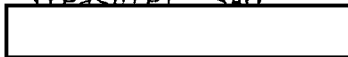
As of the date of this summary (March 30, 1981), we are not aware of any other contacts with respect to Aramco since March 17, although Houston Natural Gas has apparently been the object of similar inquiries. The Special Audit Division is continuing to investigate in an attempt to identify the person(s) involved. All banks of account, the F.B.I., Federal Reserve Bank and Clearinghouse Association have been alerted either by ASC personnel or the banks. Treasurer's personnel have been instructed to accept any similar collect calls to enable us to trace them to the originating number. The banks, if contacted, have been asked to accept any unusual instructions and then, without acting on them, notify us immediately.



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Attachment

cc: Treasurer SAO



Special Audit Division, ASC

March 13, 1981

[redacted]  
Treasurer's Department  
Aramco Services Company  
1100 Milam  
Houston, Texas 77002

b6  
b7C

Dear [redacted]

Per our phone conversation of this date, please find enclosed the necessary authorization forms for phone wire transfers on your account no. 01-4758-3. I was instructed by Treasury Services in Dhahran to have [redacted] and [redacted] sign these forms. Upon receiving them back, the five signers will have the authority to phone our wire transfer department at [redacted] for International or [redacted] for Domestic with transfer instructions.

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b7C

I realize that it is impractical for your board to sign the resolution so please have some sort of official "Equivalent Governing Body" sign the resolution (perhaps someone in the Law Department or Resident General Manager?)

Sincerely,

[redacted signature block]

b6  
b7C

CWC/pat  
Enclosure

[redacted box]

[redacted box]  
WKS  
IN  
CWC  
CWC



~~CONFIDENTIAL~~

b6  
b7C

MEMORANDUM

Houston, Texas

April 1, 1981

TO: File  
FROM: [redacted]  
Special Audits

SUBJECT: Attempt to Secure Sensitive ASC Data Regarding  
Electronic Transfer of Aramco Funds

- 
1. On 3/31/81, [redacted] ASC Communications, advised that Southwestern Bell had completed their research of ASC telephone billings. Southwestern Bell had determined the collect telephone call placed to [redacted] on 3/13/81 was made from area code 904/386----. [redacted] explained the last four digits of the telephone where the call originated was listed in the Southwestern Bell records as "0000", which is merely a filler used by the telephone company to complete their records for billing purposes on calls placed from pay telephones. The area code "904" is applicable to Tallahassee, Florida and the first digits of the pay telephone number "386" is recorded as being located on the Florida State University Campus, Tallahassee, Florida.
  2. On 4/1/81, [redacted] IR, ASC, advised that Aramco/ASC does not currently have any students attending the Florida State University, Tallahassee, Florida under company sponsorship. The only colleges located in Florida that students are attending under Aramco/ASC sponsorship are Florida International University, Melbourne (Miami), Florida, and the University of Miami, Coral Gables, Florida.

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b6  
b7C

JCS:jg



Exhibit H.

~~CONFIDENTIAL~~

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MEMORANDUM

April 14, 1981

TO: File  
FROM: [redacted]  
Special Audits  
SUBJECT: Attempt to Secure Sensitive ASC Data Regarding Transfer of  
Aramco Funds

At 3:00 p.m., 4/13/81, [redacted] Metropolitan Department, First City National Bank, advised the writer that he had just been informed that an employee of the First City National Bank Bookkeeping Department had received another telephone call from a person whom he believed was connected with the attempted money transfer scam. He identified this person as [redacted]. He got [redacted] on the telephone and I spoke to her.

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She advised that at approximately 11:20 a.m. on this date, she received a call from a person who identified himself as [redacted]. I asked her about the spelling and she reiterated that phonetically it sounded like [redacted]. The call came in on a special telephone line which is reserved for inter-bank communications and is not generally known to the public. She said, however, that the bank operator may have put the call on this line. She said after the person identified himself, he gave an account number which she immediately identified as the ASC account number. He then asked for the bank balance as of 4/13/81. She told him that she could not give him this information and that the data would have to come from a bank services officer. She then told him that she would transfer him to a bank service officer and he hung up.

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b7C

She stated that [redacted] had recently issued a memorandum stating that any telephone requests for client account numbers or balances or other personal information could only be released by him and this is the reason why she told the caller that she would have to transfer him to a bank services officer. [redacted] was very specific that the call was a long-distance telephone call and based her assumption on the fact that the voice sounded faint and there were sounds on the line which indicated to her that the call was long distance.

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No further information was available.

[redacted]

b6  
b7C

RLL:jg

*a local planner. 4/14/81 - 1st copy to FBI*

EXHIBIT I

~~CONFIDENTIAL~~

b6  
b7C

MEMORANDUM

Houston, Texas  
April 14, 1981

TO: File  
FROM: [redacted]  
Special Audits  
SUBJECT: Attempts to Secure Sensitive ASC Data regarding Transfer of Aramco Funds

On 4/14/81, [redacted] was reinterviewed concerning the telephone call that she received at 1120 hours, 4/13/81. Present during the interview was [redacted] of the Bookkeeping Department where [redacted] is employed.

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b7C

[redacted] stated substantially the same as in the memo dated 4/13/81 with three additional items:

1. The caller did identify himself as [redacted] Aramco Services Company. He spelled the name [redacted].
2. The telephone call was received on a number that is not publicized outside the bank and is generally used by Bookkeeping Department personnel only. No recording was made. [redacted] called the Chief Operator and confirmed that the bank operator would have placed an incoming call on that line if the caller was either long distance or an irate local client. No collect telephone calls were received by the bank. Therefore, the call must have been either a paid long-distance call or the caller could have been insistent on immediately talking to the Bookkeeping Department. If the other lines in that Department were busy, the Operator would have placed him on the unlisted line.
3. He gave [redacted] an account number, which [redacted] identified as the "big" ASC account. She did not know if ASC personnel refer to this as the general account number. However, she did say that it was the account where the larger balances were maintained.

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b6  
b7C

b6  
b7C

[redacted] again stated that the caller did not wait while she contacted the bank services officer, but hung up. She did not know how long he had remained on hold, but when she could not immediately contact [redacted] she found that the caller was no longer on the hold line and had hung up.

b6  
b7C

[redacted] stated that the account with First City that is usually referred to as the general account by ASC Treasury employees is the account with the largest balance. This is the account number which was furnished to the caller previously by [redacted]. Based on this, I assume that this caller was the same person, or in the same group of persons, who made previous telephone calls.

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RLL:jg

[redacted]

Exhibit J

September 3, 1981 Telephone Conversation

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Woman: [redacted]

Man: Yes

Woman: Okay, ah, I don't really know anything about that, you said that you had an authorization for a wire transfer?

Man: \_\_\_\_\_ authorization for a wire transfer was to be called in

Woman: An authorization for wire transfer to be called in

Man: Yes, I called [redacted] and I have a list of five

Woman: You have a list of five, [redacted] me, who else?

Man: [redacted] and a [redacted]

Woman: [redacted] and [redacted]

Man: Yes

Woman: Ah, well I don't think anyone has made a transfer here today, if that's what you are asking

Man: No, you, just the authorization slip, do you call [redacted] or bring it in to you on Monday or Friday

Woman: Ah, uhm, no I don't think they brought us any kind of an authorization slip up here, I didn't sign one Monday or Friday

Man: I'll get in touch with [redacted] then, thank you.

Woman: Okay, could I have your phone number in case I do find out something

Man: [redacted]

Woman: [redacted] what's the prefix

Man: [redacted]

Woman: [redacted] okay, thank you

Field File No. 196B-1889-10  
OO and File No. 196B-952-1a4

Date Received \_\_\_\_\_

From \_\_\_\_\_  
(NAME OF CONTRIBUTOR)

Ft. M. Rank  
(ADDRESS OF CONTRIBUTOR)

Long Beach, Calif

By \_\_\_\_\_  
(NAME OF SPECIAL AGENT)

To Be Returned  Yes  
 No

Receipt Given  Yes  
 No

Yes  
 No

Grand Jury Material-  
Disseminate Only  
Pursuant to Rules  
6(e), Federal Rules  
of Criminal Procedure

Description:

interview notes

b6  
b7C



9/4/81

Money #

0503120-6

- Customer activity account -

all wire sent could

12

Fed Reserve  
Priority  
immediate advice

- MIDC

- Money International  
Depository Corporation

(Sometimes 3 letter  
broker / account  
expansion code)

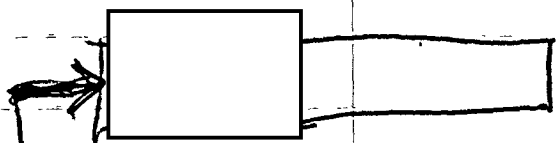
(Sometimes also  
3 numbers)

if closely resembles account # would have called Money



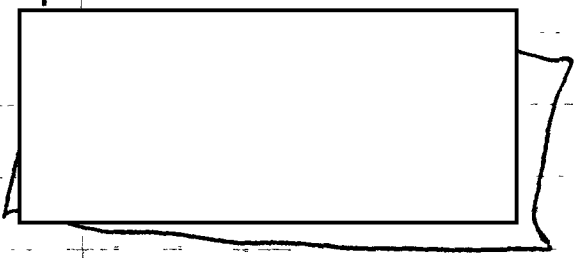
at money receiving

give info they check accounts and insure expected + to on account



b6  
b7C

Call involving transfer  
Broker from Money



\$489,524

→ - gave 0193 Fed Reference -







9-8-81

Broker called again on Fri  
afternoon -  
had been looking for two weeks  
in some amount about two  
weeks ago

but now expecting only one

Broker said



from Aronco  
now

to be invested according to



felt about the  
reason for delay

(said giving transaction)

Universal File Case Number 196B-952-1A10

Field Office Acquiring Evidence \_\_\_\_\_

Serial # of Originating Document \_\_\_\_\_

Date Received 1/16/92

From \_\_\_\_\_  
[Redacted]

FBI Houston Division  
(Address of Contributor)

\_\_\_\_\_  
(City and State)

By \_\_\_\_\_  
(Name of Special Agent)

To Be Returned  Yes  No

Receipt Given  Yes  No

Grand Jury Material - Disseminate Only Pursuant to Rule 6 (e)  
Federal Rules of Criminal Procedure

Yes  No

Title: Unsub [Redacted] DBA  
Mramco, Houston, Tex. FBW  
OO:HO

b6  
b7C

Reference: \_\_\_\_\_  
(Communication Enclosing Material)

Description:  Original notes re interview of

FO-192008182 destroyed per SA  
[Redacted] on 1/16/92. VOT  
(see memo 1/11/92) (see 1A10)

b6  
b7C

File - Serial Charge Out  
FD-5 (Rev. 10-13-89)

Date 8/2/96

File 196B - 952  
Class. Office of Origin Case No. Last Serial

Pending  Closed

| Serial No. | Description of Serial         | Date Charged  |
|------------|-------------------------------|---------------|
|            | <u>1B1 has changed to 1B3</u> | <u>8/2/96</u> |
|            |                               |               |
|            |                               |               |
|            |                               |               |
|            |                               |               |
|            |                               |               |
|            |                               |               |
|            |                               |               |
|            |                               |               |



ELSUR 1/34 b6 b7C

RECHARGE Date \_\_\_\_\_

To \_\_\_\_\_ From \_\_\_\_\_

|                     |       |        |       |
|---------------------|-------|--------|-------|
| Initials of Clerk { | _____ | Date } | _____ |
|                     | _____ |        | _____ |
|                     | _____ |        | _____ |

\_\_\_\_\_ Date charged

\_\_\_\_\_ Employee

\_\_\_\_\_ Location

Property Exhibit

WASHINGTON, D. C.

EVIDENCE  
INVESTIGATION

EVIDENCE  
FEDERAL BUREAU OF INVESTIGATION  
WASHINGTON, D. C.

EVIDENCE  
FEDERAL BUREAU OF INVESTIGATION  
WASHINGTON, D. C.

UNIT  
FRW  
00111

b6  
b7c

Date Property Acquired: 9-8-81

Source From Which Property Acquired: [Redacted]

Location of Property or Bulky Exhibit: [Redacted] of Property and Efforts Made to Dispose of Same

*Bulky H-9 EVIDENCE*

|   |            |                                      |                     |
|---|------------|--------------------------------------|---------------------|
| To Be Returned  | See Serial | Agent Submitting Property or Exhibit | Agent Assigned Case |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |            | [Redacted]                           | [Redacted]          |

Yes  No Grand Jury material - Disseminate Only Pursuant to Rule 6(e), Federal Rules of Criminal Procedure.

Description of Property or Exhibit

*(2) 10" SCOTCH 3M REEL AUDIO RECORDING TAPES*

WASHINGTON, D. C.  
FEDERAL BUREAU OF INVESTIGATION  
EVIDENCE

WASHINGTON, D. C.  
FEDERAL BUREAU OF INVESTIGATION  
EVIDENCE

WASHINGTON, D. C.  
FEDERAL BUREAU OF INVESTIGATION  
EVIDENCE



SEMIANNUAL INVENTORY CERTIFICATION TO JUSTIFY RETENTION OF PROPERTY (Initial and Date)

*196B-952-182*  
*FF*

Field File # 196B 952

OO: \_\_\_\_\_



Date 9-8-81

Title and Character  
UNSUB, [redacted] DBA KRAMCO, HO, TX  
FRW  
OO:HU

b6  
b7c

Date Property Acquired 9-8-81  
Source From Which Property Acquired [redacted]

Location of Property or Bulky Exhibit TAPE VAULT  
Reason for retention of Property and Efforts Made to Dispose of Same EVIDENCE

To Be Returned See Serial Agent Submitting Property or Exhibit Agent Assigned Case  
 Yes  No

Yes  No Grand Jury Material - Disseminate Only Pursuant to Rule 6(e), Federal Rules of Criminal Procedure.

Description of Property or Exhibit  
(2) 10" SCOTCH 3M REEL AUDIO RECORDING TAPES

SEMIANNUAL INVENTORY CERTIFICATION TO JUSTIFY RETENTION OF PROPERTY (Initial and Date)

[redacted] 196B-952-122

Field File # 196B 952

OO: \_\_\_\_\_

[Handwritten signature]



Date 9-8-81

Title and Character of Property  
UNSUB [redacted] DBA KRAMCO, HO, TX  
FRW  
OO:HO

b6  
b7C

Date Property Acquired 9-8-81  
Source From Which Property Acquired [redacted]

Location of Property or Bulky Exhibit Tape Vault  
Reason for Retention of Property and Efforts Made to Dispose of Same EVIDENCE

To Be Returned  Yes  No  
See Serial [redacted] Agent Submitting Property or Exhibit [redacted] Agent Assigned Case [redacted]

Yes  No Grand Jury Material - Disseminate Only Pursuant to Rule 6(e), Federal Rules of Criminal Procedure.

Description of Property or Exhibit  
(2) 10" SCOTCH 3M REEL AUDIO RECORDING TAPES

Destroyed per SSA [redacted] on 1/16/92  
WOT (see memo 1/11/92) (see A10)

b6  
b7C

SEMIANNUAL INVENTORY CERTIFICATION TO JUSTIFY RETENTION OF PROPERTY (Initial and Date)

Field File # 196B 952  
OO: \_\_\_\_\_  
[Stamp: 96B-952-142, SEARCHED, INDEXED, SERIALIZED, FILED, SEP 0 1981, FBI-HOUSTON]



Date 9-4-81

Title and Character of Case  
UMSUB, [redacted] DRM KRAMCO, HO, TX  
FRW  
OO AO

Date Property Acquired 9-4-81 Source From Which Property Acquired [redacted]

Location of Property or Bulky Exhibit TRAF UNIT BULKY Reason for Retention of Property and Efforts Made to Dispose of Same EVIDENCE b6 b7C

To Be Returned  Yes  No See Serial Agent Submitting Property or Exhibit Agent Assigned Case

Yes  No Grand Jury Material - Disseminate Only Pursuant to Rule 6(e), Federal Rules of Criminal Procedure.

Description of Property or Exhibit  
2 SONY CASSETTE TAPES

*Bulky does not cover UBT - 1/16/92*

196B-952-181  
1B3

SEMIANNUAL INVENTORY CERTIFICATION TO JUSTIFY RETENTION OF PROPERTY (Initial and Date)

TCT 1-5-82

SEARCHED  SERIALIZED  FILED   
OCT 0 1981  
FBI - HOUSTON

Field File # 196B 952

OO: \_\_\_\_\_

LA0001 2482322Z

PP HQ AT HO JK NY

DE LA

P 052322Z SEP 81

FM LOS ANGELES (196B-1889) (WCC-1)

TO DIRECTOR PRIORITY

ATLANTA (196B-1074) PRIORITY

HOUSTON (196B-952) PRIORITY

JACKSONVILLE (196B-544) PRIORITY

NEW YORK PRIORITY

BT

UNCLAS

UNSUB ; AKA [REDACTED]

DBA ARAMCO

HOUSTON, TEXAS; FBW; OOCHOUSTON (196B-952)

UNSUB; AKA [REDACTED]

DBA MONEX INTERNATIONAL

NEWPORT BEACH, CALIFORNIA; FBW; OO: LOS ANGELES (196B-1889)

RE LOS ANGELES AIRTEL TO HOUSTON DATED 5/22/81  
ON HOUSTON FILE 196B-808, AND HOUSTON TELETYPE TO LOS  
ANGELES DATED 9/3/81 ON HOUSTON FILE 196B-952.

b6  
b7c

196B-952-2

|               |         |
|---------------|---------|
| SEARCHED      | INDEXED |
| SERIALIZED    | FILED   |
| SEP 5 1981    |         |
| FBI - HOUSTON |         |

FBI

TRANSMIT VIA:

- Teletype
- Facsimile
- \_\_\_\_\_

PRECEDENCE:

- Immediate
- Priority
- Routine

CLASSIFICATION:

- TOP SECRET
- SECRET
- CONFIDENTIAL
- UNCLAS E F T O
- UNCLAS

Date 9/9/81

FM HOUSTON (196B-952)(P)

TO LOS ANGELES (196B-1889) ROUTINE *2343/JMC*

NEW YORK ROUTINE *EM/2255*

BT

UNCLAS

UNSUB; AKA  DBA ARAMCO, HOUSTON, TEXAS; FBW; OO:HOUSTON.

UNSUB; AKA  DBA MONEX INTERNATIONAL, NEWPORT BEACH, CALIFORNIA; FBW; OO: LOS ANGELES.

RE LOS ANGELES TELETYPE TO HOUSTON, SEPTEMBER 5, 1981.

ON SEPTEMBER 9, 1981, THE FACTS IN THIS CASE WERE DISCUSSED WITH AUSA CHIEF OF CRIMINAL SECTION  SOUTHERN DISTRICT OF TEXAS, HOUSTON, TEXAS, FOR HIS PROSECUTIVE OPINION.

AUTHORIZED THE ARREST OF THE PERPETRATOR OF THIS SCHEME FOR VIOLATION OF THE FRAUD BY WIRE STATUTE.

BT

TRT/mws

(1) *mws*

*196B-952-3*

Searched         
 Serialized         
 Indexed         
 Filed       

Approved:       *[Signature]*      

Transmitted *009 2252*  
(Number) (Time)

Per *[Signature]*

b6  
b7c

H00009 252225Z

RR LA:NY

DE HO

R 09 2252Z SEP 81

FM HOUSTON (196B-952) (P)

TO LOS ANGELES (196B-1889) ROUTINE

NEW YORK ROUTINE

BT

UNCLAS

UNSUB; AKA [REDACTED] DBA ARAMCO, HOUSTON, TEXAS; FBW; OO:HOUSTON.

UNSUB; AKA [REDACTED] DBA MONEX INTERNATIONAL, NEWPORT BEACH,  
CALIFORNIA; FBW; OO: LOS ANGELES.

RE LOS ANGELES TELETYPE TO HOUSTON, SEPTEMBER 5, 1981.

ON SEPTEMBER 9, 1981, THE FACTS IN THIS CASE WERE DISCUSSED  
WITH AUSA CHIEF OF CRIMINAL SECTION [REDACTED] SOUTHERN DISTRICT  
OF TEXAS, HOUSTON, TEXAS, FOR HIS PROSECUTIVE OPINION.

[REDACTED] AUTHORIZED THE ARREST OF THE PERPETRATOR OF THIS  
SCHEME FOR VIOLATION OF THE FRAUD BY WIRE STATUTE.

BT

b6  
b7c

196B-952-3

Searched \_\_\_\_\_  
Serialized \_\_\_\_\_  
Indexed \_\_\_\_\_  
Filed \_\_\_\_\_

## FEDERAL BUREAU OF INVESTIGATION

1Date of transcription 9/15/81

[redacted] Farmers and Merchants Bank, 302 Pine Avenue, Long Beach, California, telephonically advised as follows: b6 b7C

On the afternoon of September 4, 1981, he received a second telephone call from [redacted] who advised that the wire transfer he had made inquiry about earlier in the day was money being invested by an individual named [redacted] who is with ARAMCO, Houston, Texas. [redacted] indicated that he had spoken with [redacted] and that [redacted] felt that the bank in Houston was the reason for the delay. [redacted] also indicated that this transaction was going to be the opening transaction on a new Monex account. b6 b7C

[redacted] advised that in this conversation with [redacted] [redacted] reminded him that he had contacted [redacted] approximately two weeks ago regarding two wire transfers in the amount of \$489,524.00 that he had been expecting on the same account. [redacted] advised that when he was initially interviewed by the Federal Bureau of Investigation (FBI) regarding this matter, he did not recall that previous contact from [redacted]. He advised that he now recalls that [redacted] did contact him earlier regarding two wires. b6 b7C

[redacted] advised that he would continue to advise any individual making inquiries that the wire system at Farmers and Merchants Bank was down. [redacted] advised that, in fact, the wire system at the bank was down. b6 b7C

196B-952-14

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Investigation on 9/8/81 at Long Beach, California File # Los Angeles 196B-1889

*ASA* [redacted] /tlh Date dictated 9/9/81 b6 b7C

FEDERAL BUREAU OF INVESTIGATION

1

Date of transcription 9/7/81

[redacted] Aramco, furnished two Sony cassette recordings of conversations between a male caller, Aramco officials.

b6  
b7C

[redacted] also furnished one copy of an Aramco Report on the fraudulent wire transfer scheme.

Investigation on 9/4/81 at Houston, Texas File # HO 196B-952-19

by SA [redacted] /rbp Date dictated 9/4/81

b6  
b7C

FD-302 (REV. 3-8-77)

FEDERAL BUREAU OF INVESTIGATION

1

Date of transcription 9/10/81

[redacted] Aramco, furnished two 10 inch Scotch 3M Reel Audio recording tapes of conversations between a male caller and First City National Bank, Houston, Texas.

b6  
b7C

Investigation on 9/8/81 at Houston, Texas File # HO 196B-952-20

by SA [redacted] /rbp Date dictated 9/8/81

b6  
b7C

## FEDERAL BUREAU OF INVESTIGATION

1Date of transcription 9/4/81

[redacted] Wire Transfer Room,  
First City National Bank, furnished a copy of a memo she  
prepared dated September 2, 1981, subject "Aramco" which  
reads as follows:

On September 2, 1981, [redacted] received a phone  
call from a [redacted] who claimed he was from Aramco.  
He did not give or try to give a wire transfer just asked  
a lot of questions pertaining to:

Is he still able to wire transfer?  
Is he still on the Card?  
What accounts can he debit?

[redacted] from Communications is getting us a  
recording of conversation.

[redacted] will listen to the recording on  
September 3, 1981 in my office.

September 3, 1981, at 9:40 AM a [redacted] called  
again, I talked to the man and informed him he was authorized  
to make transfers. He said he would call back. He kept  
asking for our deadline time. At 1:25 PM, on September 3,  
1981, the gentleman called in a wire transfer for \$489,524.00  
going to Farmers & Merchants Bank, Long Beach, California,  
Pine Ave., further credit Monex [redacted] reference attention,  
[redacted] reference [redacted]

Investigation on 9/3/81 at Houston, Texas File # HO 196B-952-21

by SA [redacted] /rbp Date dictated 9/3/81

b6  
b7Cb6  
b7Cb6  
b7C



## FEDERAL BUREAU OF INVESTIGATION

1Date of transcription 9/14/81

[redacted] Wire Transfer Room, First City National Bank, was advised of the identity of the interviewing agent and of the nature of the interview which concerned her conversation with a [redacted] on September 2, 1981.

b6  
b7C

[redacted] stated on September 2, 1981, she was telephonically contacted by an individual who represented himself to be [redacted] with Aramco.

b6  
b7C

[redacted] asked [redacted] if he was still on the Aramco authorization card. [redacted] advised [redacted] he was authorized to make wire transfers.

b6  
b7C

[redacted] stated during his conversation with [redacted] he asked what the deadline was for sending a wire transfer to California.

b6  
b7C

[redacted] stated on September 3, 1981 at approximately 10:40 am, she was telephonically contacted by the same male caller representing himself to be [redacted] asked [redacted] if he was on the authorization card. [redacted] confirmed he was on the authorization card. [redacted] terminated the telephone call.

b6  
b7C

Investigation on 9/11/81 at Houston, Texas File # HO 196B-952-22  
by SA [redacted] /rbp Date dictated 9/11/81

b6  
b7C

## FEDERAL BUREAU OF INVESTIGATION

1Date of transcription 9/14/81

[redacted] Wire Transfer Room, First City National Bank, was advised of the identity of the interviewing agent and of the nature of the interview which concerned a wire transfer ordered by an individual representing himself to be [redacted] with Aramco.

b6  
b7C

[redacted] stated on September 3, 1981 a wire transfer was telephonically sent out by [redacted] with Aramco in the amount of \$489,524.

b6  
b7C

On September 8, 1981 at approximately 12:55 pm, a telephone call from a female, who identified herself as [redacted] (Last Name Unknown) with Monex, asked [redacted] if the foregoing wire transfer was made. [redacted] confirmed to [redacted] (Last Name Unknown) transfer was made. [redacted] (Last Name Unknown) terminated the conversation.

b6  
b7C

Investigation on 9/11/81 at Houston, Texas File # HO 196B-952 - 23  
by SA [redacted] /rbp Date dictated 9/11/81

b6  
b7C

## FEDERAL BUREAU OF INVESTIGATION

1Date of transcription 9/22/81

[redacted] Treasure Department, Aramco, was advised of the identity of the interviewing agent and of the nature of the interview which concerned the fraudulent wire transfer attempted on the Aramco account at First City National Bank by an individual representing himself to be [redacted] with Aramco.

b6  
b7C

[redacted] stated [redacted] is authorized to make wire transfers; however, [redacted] did not make the wire transfer from Aramco to Monex on September 4, 1981.

b6  
b7C

[redacted] listened to a tape recording, made by First City National Bank - Wire Transfer Room, of a conversation between telephone clerk [redacted] and the male caller representing himself to be [redacted]. [redacted] stated the male caller was not [redacted] and [redacted] did not know the identity of the caller.

b6  
b7C

Investigation on 9/18/81 at Houston, Texas File # HO 196B-952-24  
by SA [redacted] /rbp Date dictated 9/18/81

b6  
b7C

HOO 0013 24 1035 6Z

RR LA

DE HO

R 030300Z SEP 81

FM HOUSTON (196-952)

TO LOS ANGELES ROUTINE

BT

UNCLAS

UNSUB; POSSIBLE WIRE TRANSFER FROM FIRST CITY NATIONAL BANK.

HOUSTON, TEXAS; ARAMCO - VICTIM. OO: HOUSTON.

RE HOUSTON TELCALL TO SSRA [REDACTED]

FOR THE PAST NINE MONTHS AN INDIVIDUAL, REPRESENTING HIMSELF TO BE [REDACTED] AN ARAMCO OFFICIAL HAS MADE INQUIRIES WITH FIRST CITY NATIONAL BANK, (FCNB), HOUSTON, CONCERNING WIRE TRANSFER PROCEDURES. FCNB RECORDS ALL INCOMING TELEPHONE CALLS TO THE WIRE TRANSFER AND HAS RECORDINGS OF THE FOREGOING CALLS.

[REDACTED] SECURITY DEPARTMENT ARAMCO, HOUSTON, TEXAS, ADVISED [REDACTED] IS AN ARAMCO OFFICIAL AND IS AUTHORIZED TO INITIATE WIRE TRANSFERS. HOWEVER [REDACTED] IS NOT INVOLVED INT THIS

196B-952-25

|               |         |
|---------------|---------|
| SEARCHED      | INDEXED |
| SERIALIZED    | FILED   |
| SEP 4 1981    |         |
| FBI - HOUSTON |         |

b6  
b7C

PAGE TWO HO 196-952 UNCLAS

MATTER. ARAMCO HAS HAD RECORDING ANALYZED WHICH CONFIRMED [REDACTED] b6  
NOT CALLER. FURTHER CALLER APPEARS TO SPEAK WITH [REDACTED] ACCENT. b7C  
[REDACTED] ADVISED ARAMCO ACCOUNT AT FCNB HAS A CREDIT LINE  
UP TO \$100 MILLION.

ON SEPTEMBER 3, 1981, FCNB RECEIVED A TELEPHONE CALL AT 1:25 P.M.  
FROM A CALLER IDENTIFYING HIMSELF AS [REDACTED] CALLER INITIATED  
WIRE TRANSFER TO FARMERS AND MERCHANTS BANK, IN THE AMOUNT OF  
\$489,524.00, CHARGING ARAMCO ACCOUNT NUMBER 00-0241-0, TO CREDIT  
MONEY ACCOUNT NUMBER [REDACTED] SPECIAL INSTRUCTIONS [REDACTED]  
REF [REDACTED] ATTN: [REDACTED]

FCNB HAS NOT WIRED FUNDS.

LOS ANGELES AT LONG BEACH, CALIFORNIA, CONDUCT DISCRETE INQUIRY  
ON [REDACTED] AND MONEY.

BT

H00004 307202SZ

RR NY LA

DE HO

R 03 2005Z NOV 81

FM HOUSTON (196B-952)

TO NEW YORK (196B-1979) ROUTINE

LOS ANGELES (196B-1889) ROUTINE

BT

UNCLAS

UNSUB; AKA [REDACTED] DBA ARAMCO, HOUSTON, TEXAS, FBW, OO: HO.

UNSUB; AKA [REDACTED] DBA MONEX INTERNATIONAL, NEW PORT BEACH,  
CALIFORNIA, FBW, OO: /LA.

RE NY TEL TO LA, SEPTEMBER 22, 1981.

WILL FURNISH HOUSTON WITH RESULTS OF INVESTIGATION IN ORDER  
FOR ASSISTANT U.S. ATTORNEY (AUSA), SOUTHERN DISTRICT OF TEXAS  
(SDT), HOUSTON, TEXAS, TO RENDER PROSECUTIVE OPINION.

BT

b6  
b7c

196B-952-26

Searched

Serialized

Indexed

Filed

FBI

TRANSMIT VIA:

- Teletype
- Facsimile
- \_\_\_\_\_

PRECEDENCE:

- Immediate
- Priority
- Routine

CLASSIFICATION:

- TOP SECRET
- SECRET
- CONFIDENTIAL
- UNCLAS E F T O
- UNCLAS

Date 11/3/81

FM HOUSTON (196B-952)

TO NEW YORK (196B-1909) ROUTINE *2040/Kd/lem*

LOS ANGELES (196B-1889) ROUTINE *2030/lrs*

BT

UNCLAS

UNSUB; AKA  DBA ARAMCO, HOUSTON, TEXAS, FBW, OO: HO.

UNSUB; AKA  DBA MONEX INTERNATIONAL, NEW PORT BEACH, CALIFORNIA, FBW, OO: LA.

RE NY TEL TO LA, SEPTEMBER 22, 1981.

WILL FURNISH HOUSTON WITH RESULTS OF INVESTIGATION IN ORDER FOR ASSISTANT U.S. ATTORNEY (AUSA), SOUTHERN DISTRICT OF TEXAS (SDT), HOUSTON, TEXAS, TO RENDER PROSECUTIVE OPINION.

BT

TRT/bw  
(1) *bw*

*196B-952-26*

Searched *[initials]*  
 Serialized *[initials]*  
 Indexed *[initials]*  
 Filed *[initials]*

Approved: *HRH*

Transmitted

(Number) *004*

(Time) *2005Z*

Per

b6  
b7C

b6  
b7C

X AIRTEL

1/27/82

TO: SAC, NEW YORK (196B-1909)  
FROM: SAC, HOUSTON (196B-952)(P)  
RE: UNSUB;  
aka [REDACTED]  
ET AL  
FBW  
(OO: HO)

b6  
b7c

Re HO tel to NY, 11/3/81.

LEAD:

NEW YORK DIVISION

AT NEW YORK

Will furnish Houston with results of investigation.

2 - New York  
2 - Houston  
TRT/cmc  
CYR (4)

196-952-27

SEARCHED  
SERIALIZED

*[Handwritten signature]*



FBI

TRANSMIT VIA:

- Teletype
- Facsimile
- AIRTEL

PRECEDENCE:

- Immediate
- Priority
- Routine

CLASSIFICATION:

- TOP SECRET
- SECRET
- CONFIDENTIAL
- UNCLAS E F T O
- UNCLAS

Date FEB 22 1982

TO: SAC, HOUSTON (196B-952) (P)

FROM: *JPM* ADIC, NEW YORK (196B-1909) (RUC)

SUBJECT: UNSUBS; aka  
 [Redacted]  
 ET AL  
 FBW (B)  
 (OO:HO)

ReHOairtel to NY, 1/27/82.

Enclosed for the Houston Division are original and two copies of an investigative insert synthesizing investigation conducted by the New York Division re above captioned case. New York is placing this matter in an RUC status and will reopen the case if specific leads are set forth by the originating office.

② Houston (Encls. 3)  
1-New York

JTM:jjc  
(4)

*196-952-28*

|             |         |
|-------------|---------|
| SEARCHED    | INDEXED |
| SERIALIZED  | FILED   |
| FEB 27 1982 |         |

[Redacted]

*with mail 1*

b6  
b7C

b6  
b7C

Approved: \_\_\_\_\_ Transmitted \_\_\_\_\_ (Number) \_\_\_\_\_ (Time) Per \_\_\_\_\_

X AIRTEL

22

TO: SAC, HOUSTON (196B-952) (P)  
FROM: ADIC, NEW YORK (196B-1909) (RUC)  
SUBJECT: UNSUBS; aka  
[REDACTED]  
ET AL  
FBW (B)  
(OO:HO)

b6  
b7c

ReHOairtel to NY, 1/27/82.

Enclosed for the Houston Division are original and two copies of an investigative insert synopsizing investigation conducted by the New York Division re above captioned case. New York is placing this matter in an RUC status and will reopen the case if specific leads are set forth by the originating office.

②-Houston (Encls. 3)  
1-New York

JTM:jjc  
(4)

196-952-28

|               |         |
|---------------|---------|
| SEARCHED      | INDEXED |
| SERIALIZED    | FILED   |
| FEB 1 1982    |         |
| FBI - HOUSTON |         |

*[Handwritten signature]*

# memorandum

b6  
b7C

DATE: 3/31/82

REPLY TO  
ATTN OF:

SA [redacted]

SUBJECT:

UNSUB, aka

[redacted] dba

ARAMCO, Houston, Texas

TO:

FBW

(00:HO)

SAC, HOUSTON (196B-<sup>952</sup>~~1889~~) (C)

On 9/3/81, [redacted] ARAMCO, 1100 Milam, advised for the past nine months an individual representing himself to be [redacted] an ARAMCO official, has made inquiries with First City National Bank (FCNB), Houston, concerning wire transfer procedures. FCNB records all incoming telephone calls to the wire transfer section and has recordings of the foregoing calls.

b6  
b7C

[redacted] Security Department, ARAMCO, Houston, Texas, advised [redacted] is an ARAMCO official and is authorized to initiate wire transfers. However, [redacted] is not involved in this matter. ARAMCO has had recordings analyzed, which confirmed [redacted] is not the caller. Further, caller appears to speak with a [redacted] accent.

b6  
b7C

[redacted] advised ARAMCO account at FCNB has a credit line up to \$100 million.

b6  
b7C

On 9/3/81, FCNB received a telephone call at about 1:25 p.m., from a caller identifying himself as [redacted]. The caller initiated a wire transfer to Farmers and Merchants Bank, Longbeach, California, Pine Avenue Branch, in the amount of \$489,524, charging ARAMCO account number 00-0241-0, to credit MONEX account number [redacted] special instructions [redacted] Ref. # [redacted]

b6  
b7C

[redacted] who is [redacted]

① - Houston

TRT:aik  
(1) [initials]

*close*

196-952-29

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| SERIALIZED    | FILED   |
| MAR 31 1982   |         |
| FBI - HOUSTON |         |



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

On 9/10/81, [redacted] telephonically contacted MONEX Broker [redacted] to inquire regarding foregoing wire transfer.

b6  
b7C

On 9/11/81, [redacted], MONEX International, advised that late on 9/10/81, he received the second call of the day from [redacted] advised that the "IRS was on to him." [redacted] indicated that he was in a bar at the time "getting drunk" and that he did not feel the transaction could go through. [redacted] advised him that the wire transfer had arrived and that therefore the gold was available to him for delivery at any location [redacted] desired. [redacted] again indicated that the IRS was on to him and stated that he might call again with delivery instructions in a day or two or "he may never call again."

b6  
b7C

[redacted] advised that he told [redacted] he could call at any time regarding delivery of the gold and that MONEX would have the gold available for him inasmuch as they had received his money. [redacted] indicated that he would advise the FBI of any new contacts and that he would continue to attempt to get [redacted] to provide delivery instructions.

b6  
b7C

On 9/16/81, MONEX Broker advised that he had heard from [redacted] telephonically in the afternoon of 9/15/81, at which time [redacted] advised that he had "closed down his New York offices and let everyone go on vacation." He again indicated he was having problems in New York and requested his account be liquidated and a wire transfer of funds sent to Zurich, Switzerland, or actual gold to be shipped to Zurich. [redacted] indicated that he would recontact the broker within the next day or two with specific instructions. The broker left the matter open with [redacted]

b6  
b7C

To date, unknown subject has not made any further attempts to perfect scheme.

Investigations in New York and Los Angeles negative to date in identifying unknown subject.

In view of the fact that all logical investigation has been conducted, including interviews of all known individuals contacted by unknown subject, this matter should be considered closed.

Memorandum



To : SAC, HOUSTON (196B-952) (C) Date 1/11/92

From : SSA [Redacted]

b6  
b7C

Subject : SEMI-ANNUAL REVIEW OF BULKY INVENTORY

This writer has reviewed the above file and determined the following action is necessary:

- (1) Evidence is to be retained due to:  
(Check either (a) or (b) below)
  - (a) Pending Investigation \_\_\_\_\_
  - (b) Pending Appeal \_\_\_\_\_ as per AUSA

\_\_\_\_\_ on \_\_\_\_\_  
Name Date

- (2) Evidence is to be returned as per AUSA
- \_\_\_\_\_ on \_\_\_\_\_  
Name Date

- (3) Evidence is to be destroyed as per AUSA
- \_\_\_\_\_ on \_\_\_\_\_  
Name Date

*Case never prosecuted - AUSA authority not required. If tapes are not Elsewhere, they can be destroyed.*

THIS MEMO IS TO BE ATTACHED TO FD 192 IN BULKY ROOM.

FILE#

*Bulky NOT Done*

196B-952-31

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# Justice Pigeonholes Oil Scandal

By Drew Pearson

If the Senate ever gets around to a real investigation of the Justice Department—which probably never will happen—it will find tucked in a pigeonhole a sensational report on Arabian oil which for these long years has been gathering dust.



Pearson

The Senate Investigating Committee, of which Henry Truman Howard once was chairman, found this report to the Justice Department. It outlines a scandalous financing of the United States Government, and a possible criminal case against the oil companies.

However, the Justice Department has done nothing. Furthermore the statute of limitations is rapidly ticking away, and it will soon be too late to act.

The Justice Department's stalling in the Arabian oil case is similar to the stalling regarding the major grab by the Radio Corp. of America and the stalling regarding the wiretapping of Lina, the mistress of the Washington post, who was paid by Senator Champ Horwath (R., Ill.) to tap the phone of West Coast Aviation Executive Howard Hughes. In the case of Shannon, the Justice Department did nothing until about 30 days before the statute of limitations expired. Then, upon the publishing of newspapers, a grand jury was called—too late to get any conclusive evidence.

## Oil Companies Involved

In the Arabian-American Oil Co. scandal, some of the biggest oil companies in the country are involved—originally Texas and Standard of California, with Standard of New Jersey and Socony having 49 percent interest in Arabian later.

In 1949 the Senate Investigating Committee found that Arabian-American Oil had overcharged the Navy millions of dollars by charging a \$1.05 a barrel for oil, after actually providing fuel oil at \$1.00 a barrel. It was on the basis of this report that the Senate was called—too late to get any conclusive evidence.

sell to the United States under a proposal to the President dated April 18, 1941, at prices based on fuel oil at 40 cents per barrel.

"When the United States needed oil because of its war demands, notwithstanding these prior proposals, the companies offered the Navy fuel oil at \$1.05 a barrel on a take-it-or-leave-it basis. The Navy was forced to buy the oil on these terms.

"The oil companies were under moral, if not a legal obligation to disclose to the naval procurement officers their previous proposals for the sale of oil submitted to the President," continues the Senate report.

"The oil companies exploited the Government by exacting high prices for their products despite the assistance granted to Saudi Arabia at the companies' behest to protect and preserve the companies' concessions."

The Senate committee goes on to tell how the oil companies claimed they had doubled their royalties to the Arabian government, and observes "The United States Government clearly was deceived because the royalty payments were not doubled."

It has been nearly three years since the Senate committee made this categorical charge of "fraud." Nevertheless, the Justice Department has made no move, and the statute of limitations will expire in a few more days.

## 'All-Out' War

Industry spokesmen were discussing Government controls at a closed-door meeting with officials of the National Production Authority.

Several of the business leaders argued against "all-out" allocation of materials because, they said, we are not involved in an "all-out" war. As the question

was debated back and forth, E. S. Gilliam, a pen manufacturer of Petersburg, Va., remained silent. Pressed for his views, he finally remarked:

"Gentlemen, it may be that we are not already in an all-out war but nobody can make me believe it."

"You see," he added, "my son has just been killed in Korea."

## Ex-Governor of Georgia

Georgia's former Governor, M. E. Thompson, is now making a lot of money out of his dramatic exit from the Office of Price Stabilization when he claimed he was given nothing to do and didn't believe in drawing pay for pure idleness.

Since then Thompson has spent most of his time lecturing and writing about how he quit the Government, and is even publishing a monthly newspaper in Wetter, Ga.—the Georgia Democrat—devoted largely to attacking the price-control office.

However, the former Governor doesn't tell his readers and his lecture audience the full story.

He has never mentioned, for instance, that he signed a false claim in order to draw the OPS salary which he said he didn't earn. He was on the OPS payroll for 12 weeks during which time he stated publicly that he didn't do a lick of work. What he didn't tell the public, however, is that he put in a voucher, closing his full pay of \$21.49 per day, plus expense, totaling \$287.32 for only 12 weeks' work.

In order to collect this pay, Thompson signed the following statement: "I certify that the above account is just and true in all respects. My statement of services performed, currently sets forth my services on official business."

Copyright 1951, The Post Production, Inc.

- Tolson \_\_\_\_\_
- Ladd \_\_\_\_\_
- Clegg \_\_\_\_\_
- Glavin \_\_\_\_\_
- Nichols \_\_\_\_\_
- Mason \_\_\_\_\_
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- WASH. Post 13 6
- Wash. News \_\_\_\_\_
- Wash. Star \_\_\_\_\_
- N.Y. Mirror \_\_\_\_\_

Date: June 16, 1951

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46-13326-6  
ENCLOSURE  
46-13326-104

Office Memorandum • UNITED STATES GOVERNMENT

TO DIRECTOR, FBI

DATE: December 20, 1949

*SW* FROM: GEY HOTTEL, SAC, Washington Field

SUBJECT: UNITED STATES NAVY CONTRACTS FOR  
PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT  
(Bufile 46-13326)

*R* Rebutlet April 1, 1949.

Due to the fact that no information has been received from the Bureau as to the present status of this investigation, this case will be considered closed by this office unless advised to the contrary by the Bureau.

JEH:ML  
46-1908

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46-13326-10

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EX-8

Assistant Attorney General E. C. Harrison

December 14, 1949

Director, FBI

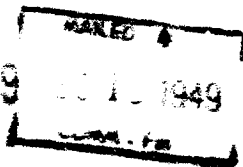
UNITED STATES NAVY CONTRACTS FOR  
PURCHASE OF BAKED ALUMINUM FIBERLESS PRODUCTS  
WAR PRIZE CLAIM - CIVIL TORT

Reference is made to your file 145-38-40 and to my letter dated June 9, 1949 wherein inquiry was made as to whether any further investigation was desired.

In the absence of a reply, it is assumed that no further investigation is desired and this case is being closed in the files of this Bureau. Should the Claims Division desire any additional investigation in this matter, this file, of course, will be re-opened in order that the desired investigation may be conducted.

Mr. Tolson  
Mr. E. A. Tamm  
Mr. Clegg  
Mr. Glavin  
Mr. Ladd  
Mr. Nichols  
Mr. Rosen  
Mr. Tracy  
Mr. Carson  
Mr. Egan  
Mr. Gurnea  
Mr. Hendon  
Mr. Pennington  
Mr. Quinn  
Mr. Nease  
Miss Gandy

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Assistant Attorney General  
Alexander M. Campbell  
Director, FBI

September 16, 1949

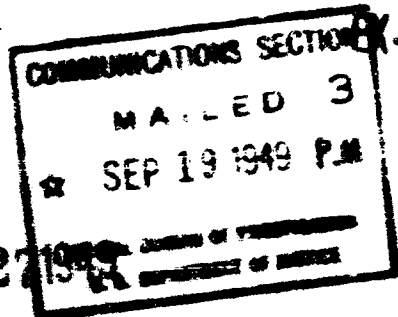
ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

Reference is made to the letter from the Criminal Division dated April 5, 1949, your file AHC:JAW:mg, 146-38-40.

Please be advised that this case is being considered closed in the files of this Bureau. Should the Criminal Division desire any additional investigation in this matter this file will, of course, be reopened in order that the desired investigation may be conducted.

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Assistant Attorney General H. C. Morrison

June 9, 1949

Director, FBI

EX-109

UNITED STATES NAVY CONTRACTS FOR  
PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS  
FOR FRAUD CLAIM - CIVIL SUIT

Reference is made to your file 146-33-40 and to my letter dated  
February 8, 1949, wherein inquiry was made as to whether any further investigation  
was desired.

It would be appreciated if you will advise at your earliest convenience  
whether further investigation, if any, is desired by you in connection with the  
above-captioned case.

cc - Washington Field

COMMUNICATIONS SECTION  
MAILED 13  
★ JUN 9 1949 PM  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

- Mr. Tolson
- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Gurnea
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn
- Mr. Nease
- Miss Gandy

68 JUN 14 1949

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JUN 14 1949

*[Handwritten signatures and initials]*

# Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI  
FROM : GUY HOTTEL, SAC, Washington Field  
SUBJECT: UNITED STATES NAVY CONTRACTS FOR  
PURCHASE OF SOUTH ASIATIC PETROLEUM  
PRODUCTS.  
WAR FRAUD CLAIM - CIVIL SUIT  
(Bufile 46-13326)

DATE: June 3, 1949

Reference is made to Bureau letter to New York dated April 1, 1949, advising that a letter was directed to the Claims Division of the Department requesting advice as to whether additional investigation was desired, and suggesting that New York consider the case RUC'd.

In view of the above, it is requested that this office be advised whether or not this case may be closed.

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GH:MCP

M 46-13326

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A.L.M.*

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46-13326-1  
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5 JUN 5 1949

Assistant Attorney General Alexander M. Campbell  
Criminal Division  
Director, FBI

March 30, 1949

ARAMIAN AMERICAN OIL COMPANY  
CALIFORNIA ARAMIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

Investigation with respect to the criminal aspects of the captioned matter was conducted by this Bureau at the request of former Assistant Attorney General T. Vincent Quinn, Criminal Division. This investigation was completed and by memorandum dated October 22, 1947, former Assistant Attorney General Quinn advised that action was then being taken to reach a determination as to whether or not additional investigation was desired in this case.

After you have had an opportunity to review the results of the investigation conducted in this matter, it will be appreciated if you will advise me what additional investigation, if any, you consider to be desirable.

JM:DC  
46-13326

R. I. R. - 7

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EX-111

EX-111

COMMUNICATIONS SECTION  
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★ MAR 30 1949 P.M.  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

NOT RECORDED

SAC, New York

April 1, 1949

Director, FBI

UNITED STATES NAVY CONTRACTS FOR  
PURCHASE OF SAUDI ARABIAN PETROLEUM  
PRODUCTS;  
WAR FRAUD CLAIM - CIVIL SUIT

Re: Let March 21, 1949.

On February 8, 1949, a letter was directed to the Claims Division of the Department requesting advice as to whether additional investigation was desired. To date, no reply has been received. Therefore, it is suggested that you consider your case RUC'd upon receipt of this letter.

46-13720

cc - Washington Field

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APR 1 1949  
U.S. DEPARTMENT OF JUSTICE

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APR 12 1949

**Office Memorandum • UNITED STATES GOVERNMENT**

TO : Director, F.B.I.

DATE: March 21, 1949

*WPK*  
FROM : SAC New York

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS;  
WAR FRAUD CLAIM - CIVIL SUIT  
(Bufile 46-13326)

*(Handwritten initials)*

Relet from New York to Bureau, March 3, 1948 with copy to Washington Field which advised that no action was being taken by New York regarding the obtaining of cost information from the California - Texas Oil Company relative to certain contracts pending further instructions from the Bureau.

No further instructions regarding that matter have been received from the Bureau, and the case has been carried by New York in a pending inactive status pending receipt of same. There are no other outstanding leads for New York, at the present time.

In view of the above, it is requested that New York be advised whether or not this case may be RUC'd.

cc Washington Field (46-1908)

*Mem. Mr. Tolson  
cc - Washington Field  
4-1-49 G.L.R.*

*G.L.R.-7*

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Assistant Attorney General Alexander M. Campbell  
Criminal Division

February 8, 1949

Director, FBI

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ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

Reference is made to my memorandum in the captioned matter dated  
October 27, 1948.

It will be appreciated if you will advise me in the near future whether  
or not additional investigation in this case is desired by you.

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Assistant Attorney General  
H. Graham Nelson

February 8, 1949

Director, FBI

UNITED STATES NAVY CONTRACTS FOR PURCHASE OF  
SABDI ARABIAN PERSONNEL PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT

RECEIVED 30

Reference is made to your 114-10-10 (SP:SEA).

It would be appreciated if you would advise at your earliest convenience whether further investigation, if any, is desired in the above-captioned matter.

EX-35

cc - Washington Field

ALM:kjp

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| FEDERAL BUREAU OF INVESTIGATION |
| U. S. DEPARTMENT OF JUSTICE     |

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**Office Memorandum • UNITED STATES GOVERNMENT**

**TO :** DIRECTOR, FBI

**DATE:** February 2, 1949

**FROM :** GUY HOTTEL, SAC, WASHINGTON FIELD

**SUBJECT:** UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
REAR FRAUD CLAIM  
CIVIL SUIT

*File*

Re Bureau File No. 46-13326, and report of Special Agent JOHN C. GARR, dated January 19, 1949, at New Haven, Connecticut.

With the submission of the report of reference, all logical leads in this investigation have been completed.

It is requested that the facts in this case be presented to the Department in order to ascertain if any additional investigation is desired by the Department.

Until such time as advice is received from the Bureau, this case will be carried in a pending inactive status in this office.

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JEC:EPB

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46-117

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# Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

DATE: October 19, 1948

FROM : SAC, New York

SUBJECT: U. S. NAVY CONTRACTS FOR  
PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS;  
WAR FRAUD CLAIM - CIVIL SUIT  
(Bureau File 46-13326)

Rebulet September 24, 1948 and New York letter to Bureau September 30, 1948.

There is enclosed herewith to the Bureau for transmittal to SAMUEL I. ABRAMS, Departmental Attorney, one volume of a transcript of 323 pages of testimony taken in Civil Action 39-779, Southern District of New York.

This transcript was received from Miss LEIBOWITZ, head court stenographer, Southern District of New York, who advised that she had received a written order for the same from ABRAMS and that in accordance with his instructions she is rendering the bill for the transcript amounting to \$82 to the Claims Division of the Department.

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SAC, Washington Field

October 27, 1948

Director, FBI

ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
PAG - Your File 46-1644

Reurmemo October 1, 1948.

Pending advice from the Criminal Division indicating that further investigation is desired in this case, you are authorized to place it in a closed status in your office.

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Assistant Attorney General Alexander M. Campbell

October 27, 1948

Director, FBI

ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

In a memorandum dated October 22, 1947, bearing the initials TVQ:JAN:VB,  
Your File 46-38-40, the Bureau was advised that action was being taken to  
reach a determination as to whether or not additional investigation was desired  
in this matter.

I shall appreciate your now advising me of any decision which may have  
been reached in this respect.

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46-13326

46-38-40

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V. [Signature]  
[Signature]

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# Office Memorandum • UNITED STATES GOVERNMENT

**TO :** DIRECTOR, FBI

**FROM :** GUY HOTTEL, SAC, WASHINGTON FIELD

**SUBJECT:** ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

**DATE:** October 1, 1948

Rebulet dated September 2, 1947.

Reference Bureau letter stated this office would be advised of any further investigation which the Department might do in the above-entitled case. For your information, this case is being held in a pending inactive status in this office.

For your further information, this office is presently conducting an investigation entitled, "United States Navy Contracts for Purchase of Saudi Arabian Petroleum Products, War Fraud Claim Civil Suit," which is carried in a separate case file from the above-entitled case.

The Bureau is requested to advise this office as to what action is desired in the original case entitled, "Arabian American Oil Company, et al, Fraud Against the Government."

JEC:LAS  
46-1644

*Handwritten:*  
Memo Mr. G. Campbell  
Memo Mr. [unclear]  
10-27-48  
KEC

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FEDERAL BUREAU OF INVESTIGATION  
UNITED STATES DEPARTMENT OF JUSTICE

SECRET

JUNE 26, 1948

TO: COMMUNICATIONS SECTION.

SAC, NEW YORK

UNITED STATES OIL CONTRACTS FOR SUPPLY OF SAUDI ARABIAN PETROLEUM PRODUCTS, WAR  
FRAUD CLAIM - CIVIL SUIT. REURTEL JUNE TWELVE LAST AND ENCLOSURES. CLAIMS ATTORNEY  
HASTING MATTER HAS BEEN OUT OF WASHINGTON UNTIL TODAY. WILL COMPLETE REVIEW OF  
TRANSCRIPTS OF TESTIMONY MONDAY NEXT. BUREAU WILL FORWARD TRANSCRIPTS TO YOUR  
OFFICE AIRMAIL REGISTERED. PLEASE CONTACT WILLIAM POWERS MALONEY JUNE TWENTY  
EIGHT TO ADVISE HIM THE TRANSCRIPTS WILL BE DELIVERED TO HIM EARLIEST POSSIBLE  
DATE IN ACCORDANCE WITH ABOVE PLANS.

HOOVER.

WPS:LANE

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Y-3

APPROVED FOR RELEASE  
JUL 12 1948

JUL 12 1948

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51 JUL 12 1948  
SENT VIA

Serial 80

10-41P

Per

*[Handwritten signature]*

# Asks Fraud Prosecution In Oil Sales to U. S. Navy

By OLIVER PLAT

Washington News Correspondent

Washington, May 21—James A. Moffett, former oil company executive, today released a letter to Atty. Gen. Clark demanding prosecution of officials of the Arabian American Oil Co. (Aramco) for defrauding the U. S. Government.

Pointing out that the Senate War Investigating Committee reported two years ago that Aramco had "overcharged" the Navy some \$20,000,000 on oil sales between 1942 and 1947, Moffett said:

"This is not a simple matter of overcharge, but of outright fraud and investigation will show the amount involved to be close to \$20,000,000. It is the greatest scandal in American history."

Moffett said the activities of government officials involved in the Aramco deal should be carefully scrutinized. Many of these officials were formerly associated with oil interests, were transferred to their oil positions from government employ and others joined Aramco interests after helping the company greatly in a government capacity.

Moffett said the surface has "only been scratched by investigation so far. He issued a public appeal to Congress to act on one of two pending resolutions.

House Concurrent Resolution 124, sponsored by Rep. Wotchman (R-N.J.) to set up a joint Congressional committee to consider a national fuel policy.

Senate Resolution 224 introduced by Sen. McNichols (D-Calif.) to investigate the shortage of petroleum and petroleum products.

These resolutions have been pending for weeks in the Senate and House War Committees respectively.

He said the recorded fuel oil shortage of last winter was "manufactured out" instead of a desire to make prices and protect consumers in interest of the U. S. through an embargo system, which was declared at some time last winter, but it is not true.

Runaway fuel prices got their impetus in Navy deals for higher prices on Arabian oil, he said.

In 1941, Moffett went to his friend, the late President Roosevelt, whom he had served as Federal Housing Administrator and in other capacities, to appeal on behalf of Aramco for financial help to King Ibn Saud of Arabia. If such help were given, he provided, the oil combine formed by the Texas Co. and Standard Oil of California would furnish the Navy with crude oil at 40 cents a barrel.

Moffett broke with the oil combine, he said, when they failed to fulfill their promise, even though they benefited by \$50,000,000 worth of U. S. financial help to Arabia.

The price of Arabian oil in latest Navy contracts was \$1.00 a barrel, said Moffett, who was formerly chairman of the Bahrain Petroleum Co. and Caltex, chief Persian Gulf subsidiary of Aramco.

Great Britain has extended financial assistance to British companies with Middle East oil concerns, but it has been able to get oil at cost for its Navy as a result, Moffett said.

Headings of the Senate War

Investigating Committee conducted reports that the price paid by the British has been 40 cents a barrel, but Moffett charged today that a letter in the State Dept. files would show the price to be one dollar a barrel, or only 20 cents.

Asked for names of government officials whose acts in connection with Aramco deserved Congressional scrutiny, Moffett listed:

Defense Secretary Forrestal who worked before the war with Dillon, Read & Co., Aramco's former agent.

Max Thornberg, former oil adviser to the Under-Secretary of State and now vice-president of the Bahrain Petroleum Co.

James Terry Duce, now vice-president of Aramco and former foreign refinery director of the Petroleum Administration for War.

C. Strubling Sondgrass, who succeeded Duce in his PAW post. After the war Sondgrass became a vice-president of the Becked International Corp., Aramco's construction outfit.

Adm. Andrew Francis Clegg, executive director of the Army Navy Petroleum Board during the war, and later president of the Overseas Tank Ship Co., Aramco tanker subsidiary.

Capt. E. F. Kavanaugh, shipping expert for the Army-Navy Petroleum Board during the war and now Washington representative of Caltex, Aramco marketing subsidiary.

Lt. Col. Philip C. Hall, Army military attaché, London, who was in the State Dept. during the war and now is in the State Dept. as a special representative.

|                |       |
|----------------|-------|
| Mr. Tolson     | ..... |
| Mr. E. A. Tamm | ..... |
| Mr. Clegg      | ..... |
| Mr. Glavin     | ..... |
| Mr. Ladd       | ..... |
| Mr. Nichols    | ..... |
| Mr. Rosen      | ..... |
| Mr. Tracy      | ..... |
| Mr. Egan       | ..... |
| Mr. Gurnea     | ..... |
| Mr. Harbo      | ..... |
| Mr. Hendon     | ..... |
| Mr. Pennington | ..... |
| Mr. Quinn      | ..... |
| Mr. Nease      | ..... |
| Miss Gandy     | ..... |

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SEARCHED INDEXED  
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MAY 21 1948  
FBI - WASHINGTON

# Office Memorandum • UNITED STATES GOVERNMENT

*gm*

TO : Director, F.B.I.

DATE: May 22, 1948

FROM : SAC, New York

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS -  
WAR FRAUD CLAIM - Civil Suit

Rebulet 5/11/48.

Enclosed herewith to the Bureau are photostatic copies of all pleadings filed with the Clerk of the Court, Southern District of New York in Civil Actions 39-779 and 39-766. No answer has been filed in Civil Action 39-766, no calendar number has been assigned, and therefore, no date set for trial. No date has been set for trial of Civil Action 39-779, Calendar 1242. In the latter action, 2798 pages of testimony have been taken. This is available in the office of the Court Stenographers at a cost to the Government of 25¢ per page or a total cost of \$699.50. Miss Lisbowitz, head Court Stenographer, advised that she believes that a copy of this testimony is in the possession of both the plaintiff and the defendant in that case.

It is suggested that the Department may desire that an effort be made to obtain this transcript from either the plaintiff or the defendant rather than go to the expense of purchasing the same from the office of the Court Stenographers. However, in the absence of Bureau instructions, no action will be taken by New York to obtain a transcript of this testimony.

Pending receipt of instructions from the Bureau regarding the obtaining of cost figures by the New York Office from the Texas Company, this case will be carried in a pending inactive status.

Encls: (57)

**REGISTERED MAIL**

cc: Washington Field (46-1908)

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U.S. DEPARTMENT OF JUSTICE  
FEDERAL BUREAU OF INVESTIGATION  
WASHINGTON, D.C.

46-13326

U.S. GOVERNMENT PRINTING OFFICE



U.S. DEPARTMENT OF JUSTICE  
FEDERAL BUREAU OF INVESTIGATION

MAY 22 1948

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|----------------|--|
| Mr. Tolson     |  |
| Mr. E. A. Tamm |  |
| Mr. Clegg      |  |
| Mr. Glavin     |  |
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| Mr. Tracy      |  |
| Mr. Carson     |  |
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| Mr. Harbo      |  |
| Mr. Hendon     |  |
| Mr. Pennington |  |
| Mr. Quinn      |  |
| Mr. Nease      |  |
| Miss Gandy     |  |

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DIRECTOR URGENT

UNITED STATES NAVY CONTRACT FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS, WFC DASH CS. REBUTEL MAY TWENTY ONE INSTANT. INVESTIGATION REQUESTED, BULET MAY ELIVEN INSTANT, COMPLETED. DESIRED DOCUMENTS BEING FORWARDED BUREAU TODAY.

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EX-109

MAY 21, 1948 URGENT

SAC, NEW YORK

UNITED STATES NAVY CONTRACT FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS,  
NYC LASH CS. MEMO DATED MAY ELEVEN LAST, YOUR FILE FORTY SIX DASH TWO EIGHT  
ONE SIX. SUPPL STATUS OF INVESTIGATION AND EXPEDITE FORWARDING OF DESIRED  
DOCUMENTS TO BUREAU.

HOOVER

CC: WASHINGTON FIELD - REGULAR MAIL  
44-1336

RES:MS

Footnote for Washington Field: Expedite remaining investigation your district.

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EX-17

33

- Mr. Tolson
- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Gurnea
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn
- Mr. Nease
- Miss Gandy

398

MAY 21 1948

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**Office Memorandum • UNITED STATES GOVERNMENT**

TO : DIRECTOR, FBI

DATE: 5/1/48

FROM: SAC, SAN FRANCISCO

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS.  
WAR FRAUD CLAIM-CIVIL SUIT.  
Bureau File No. 46-15326

Reuylet 2/13/48 advising that the officials of Arabian American Oil Company desired to withhold all information concerning their costs until such time as they had received a letter from the Attorney General setting forth the purpose of the inquiry, the type of material desired from the company, and the statute which allegedly has been violated.

Since the letter requested has not been received, this office is not in a position to conduct any investigation, and therefore this case is being RUC'd pending receipt of additional instructions from the Bureau.

JAD:bs  
46-1196

CC: Washington Field

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21 MAY 5 1948

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## Office Memorandum • UNITED STATES GOVERNMENT

TO : DIRECTOR, FBI

FROM : GUY HOTTEL, SAC, WASHINGTON FIELD

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
 WAR FRAUD CLAIM - CIVIL SUIT  
 (Bureau File Number 46-13326)

DATE: March 29, 1948

There is attached hereto report of Special Agent J. BERNARD COOK dated March 29, 1948, in the above captioned matter.

It is to be noted that ROBERT H. S. EAKINS, Acting Chief, Petroleum Division, State Department, declined to furnish to this office a copy of the "Red Line Agreement" of 1928, which contained within it the agreement of 1921.

Mr. EAKINS stated that it has always been his policy to cooperate with the Bureau in every way possible. In this case, however, this copy of the agreement was furnished to the State Department with the strict understanding that it was not to be furnished to any other Government, however, he stated that if the investigation in this case was of such a nature that the agreement could be kept confidential, he would be glad to give a copy to the Bureau for their official use. He stated, however, if there was any danger that any other agency of individual outside the Bureau might obtain this copy, he thought it best that the State Department be served with the appropriate legal papers when this document was needed for litigation.

Mr. EAKINS stated that the State Department has on file various confidential documents of the Oil Companies, which said Oil Companies voluntarily filed with the State Department in order that this Department might be fully familiar with all the activities of said Oil Companies. He did not believe that this feeling of mutual cooperation between the Oil Companies and the State Department should be jeopardized in any way whatsoever.

Therefore, Mr. EAKINS declined to furnish a copy of this "Red Line Agreement" inasmuch as no assurance could be given to him that the copy furnished to the Bureau would be kept within the Bureau files.

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3

7 APR 2 1948

G. I. R. A.

Assistant Attorney General H. G. Merison  
Attention: Mr. Joseph M. Friedman  
Director, FBI

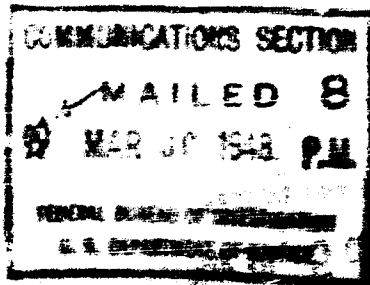
March 30, 1948

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT

Reference is made to my memorandum of February 26, 1948, to which was attached a memorandum from this Bureau's New Haven Office concerning Max W. Thornburg.

By memorandum dated March 20, 1948, the New Haven Office submitted copies of a newspaper article which appeared in the March 16, 1948 issue of the Greenwich (Connecticut) Times under the headline "Thornburg Denies Charge of 'Flashed' in State Department to Help Oil Interests". Two copies of this newspaper article are attached.

Attachment



## Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

DATE: March 20, 1948

FROM : SAC, New Haven

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
KAR FRAUD CLAIM - CIVIL SUIT  
Bureau File 44-2586

Reference is made to the captioned case and specifically to HAI H. THREMBURG who, according to information in the files of the New Haven Office, has figured prominently in the Washington, D. C. press relative to hearings on the captioned matter held by the Brewster Congressional Committee.

For the information of the Bureau and the Washington Field Office, there is being transmitted herewith copies of a newspaper article which appeared in the March 16, 1948 issue of the Greenwich Times published at Greenwich, Connecticut, entitled "THREMBURG DENIES CHARGE OF 'PLANTING' IN STATE DEPARTMENT TO HELP OIL ENTERPRISES," by JOHN KILAND.

cc: Washington Field (44-198)

Encs.

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44-258

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31 MAR 23 1948

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**"THORNBURG DENIES CHARGE OF 'PLANTED'  
IN STATE DEPT. TO HELP OIL INTERESTS"**

**"By JOHN WINANT"**

Max W. Thornburg, former Greenwich resident, has flatly denied accusations that he was 'planted' in a high position in the State Dept. to work for powerful private oil interests during the war, it was learned today.

Mr. Thornburg, now working at Bahrein Island in the Gulf of Persia, has hurled a counter-charge of 'lie' at Sen. Owen D. Brewster, (R), Maine, who branded Thornburg a month ago for allegedly playing a double-game while serving as special aide to the Under Secretary of State during the war.

The former resident detailed his denial of Sen. Brewster's charges in a recent 'open letter' to the Maine Republican. The charges had been levelled on Jan. 24, when the senator, chairman of the War Investigating Committee, said that Thornburg was 'planted' in the State Dept. to influence official U. S. policy in vital oil matters in favor of certain big companies.

Mr. Thornburg's scorching reply to Sen. Brewster is contained in a seven-page letter, hitherto unpublished, which claims the senator 'lies contemptibly' in making his allegations.

Now an official of Araco (Arabian-American Oil Co.), Mr. Thornburg also takes occasion to blast Harold L. Hicks, wartime petroleum administrator, who had clashed with him during the Edwin W. Pauley 'Mexican oil hearings' in the Senate, and who had added his condemnation to that of Sen. Brewster in January.

Mr. Thornburg claims that he was asked by the State Dept. to serve before 'my oil company with which I was connected' had any knowledge of it. He adds that his employers, the Texas Co. and Standard Oil of California, parents of Araco, had opposed his taking a government post for fear that it would open him to attacks from 'politicians as yourself.'

Mr. Thornburg was charged with receiving \$8,000 from the State Dept., at the same time he was receiving \$29,000 a year from Standard Oil. He replies that the practice of receiving the 'difference between my government and my private salary' was a long established custom, and sanctioned 'in writing by the Department of State.'

He said that State Dept. records 'will confirm' that he disqualified himself from any departmental dealings which involved his companies. He also states that Under Secretary Sumner Welles placed in his office, at Mr. Thornburg's request, a career man 'to know everything that went on in my office.'

The former resident of Greenwich details a long list of his official acts

46-13326-67

ENCLOSURE

"as special assistant to answer charges of working for private interests.

"He claims that his Latin American Oil Pool took distribution 'out of the hands of oil companies' and placed the Latin American-U. S. market directly under Mr. Welles.

"Mr. Thornburg claims, too, that his intercession in Venezuela's threat to expropriate oil properties, has 'cost the major oil companies more than 40 million dollars a year' since 1942. He also says that his action, bringing about the Venezuelan oil law of 1943, opened the doors of that country to 'our smaller "independent" oil companies.'

"He states that his intercession in the 'Pauley Mexican oil deal,' which 'led to my enforced resignation from the government,' was directed entirely by the Secretary and Under-Secretary of State.

"He also claims that he set up the control system of oil for Franco Spain, under which no company could sell to that country without instructions from a U. S. committee. The Texas Co., with which he had been affiliated, 'lost its entire market in that country,' because of his plan, Mr. Thornburg claims.

"He also says that he devised the system of placing 'oil attaches' at one embassy and legation staffs abroad, so that the government would have direct surveillance 'over oil company operations in foreign countries.'

" 'I assure you,' he wrote, 'the suggestion of such attaches did not come from the oil companies.'

" 'In this entire field of my activities I challenge you to find one instance where I favored any oil company against the national interest, or in conflict with a Department of State policy or aim.'

"Finally, Mr. Thornburg claims that 'while I was in the Department of State my relations with my own ex-companies became so strained that I did not return to my former position with them and resigned immediately I became eligible for retirement.'"





Assistant Attorney General H. A. Morrison

March 17, 1948

Director, FBI

EX-58

UNITED STATES NAVY CONTRACTS FOR  
PURCHASE OF ARABIAN  
PETROLEUM PRODUCTS  
AND FRAUD CLAIM - CIVIL SUIT

Reference is made to my memorandum of February 24, 1948, to which was attached a communication from this Bureau's San Francisco Office reflecting that officials of the Arabian American Oil Company at San Francisco desire a letter from the Attorney General setting forth certain information before divulging data concerning their costs.

Attached for your further information is a copy of a memorandum dated March 3, 1948, from the New York Office reflecting that the General Counsel for the California-Oregon Oil Company also desires a letter from the Attorney General similarly requesting the cost information and explaining in detail exactly what figures are desired. I would appreciate your advising the Bureau as soon as your Division has made a decision on these two requests.

*[Handwritten signature]*  
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COMMUNICATIONS SECTION  
MAILED 12  
★ MAR 17 1948 P.M.  
U.S. DEPARTMENT OF JUSTICE  
U.S. GOVERNMENT PRINTING OFFICE

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MAR 17 1948  
FBI - NEW YORK

## Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

FROM : SAC, New York

SUBJECT: UNITED STATES NAVY CONTRACTS FOR  
PURCHASE OF SAUDI ARABIAN  
PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT  
(Bureau File #46-13326)

DATE: 3-2-48

Re Washington Field letter to Bureau, 2-24-48, and report of SA John B. Cook, Washington, D. C., 1-7-48.

On 3-3-48 SA William A. Halpin contacted S. J. STACEY, Comptroller, California-Texas Oil Company, Ltd., 17th floor, Chrysler Building, regarding cost information relative to the California-Texas Oil Company contracts set out in reference report.

In the presence of Agent Halpin, Mr. STACEY telephonically contacted A. S. VAN DUBEN, General Counsel for the Company and explained the request to him. Thereafter, Mr. STACEY advised that before taking any steps to furnish the information in question, it is the desire of the company that it be furnished with a letter from the Attorney General or his duly accredited representative formally requesting the cost information and explaining in detail exactly what figures are desired. Mr. STACEY also requested that there be listed in the letter the contract numbers, dates, etc. of the contracts involved. He stated that the letter should be addressed to Mr. E. M. HERROE, Chairman of the Board, California-Texas Oil Company, Ltd., 261 Fifth Avenue, New York City. He stated that Mr. HERROE is also Chairman of the Board of the California-Texas Oil Company Overseas, Ltd.

Mr. STACEY brought up the question of the purpose of the request of the use to which the cost figures would be put, specifically asking if the figures would be turned over to the Treasury Department for possible assessment of additional tax against the company pointing out that it was his understanding that the tax question had been labored by Senator ~~McCarthy~~ at the Senate Committee Hearings. Agent Halpin advised Mr. STACEY that he could give no assurance that the figures would or would not be so used. It is, therefore, suggested that consideration be given to including in the letter to the California-Texas Oil Company, Ltd. a statement regarding the purpose of the request.

Mr. STACEY also advised that he had furnished considerable cost information to Mr. HERROE at the time the latter was testifying before the Brunner Committee and felt that possibly much of the information now being requested might possibly be already available in the record of the hearing.

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3-2-48

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Letter to Director  
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In view of the foregoing, no further action is being taken by New York in this matter until advice is received as to whether or not the letter in question will be furnished.

cc: Washington Field (46-1905)

ATTACHED

Acting Assistant Attorney General H. Graham Harrison  
Attention: Mr. Joseph E. Friedman

February 28, 1948

Director, FBI

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT

Attached for your information is a copy of a memorandum dated  
February 28, 1948, from this Bureau's New Haven Office indicating that  
Max W. Thornburg is presently residing at Bahrain, Saudi Arabia.

This confirms telephonic information given to Mr. Joseph E.  
Friedman on February 26, 1948.

Enc. 1

cc - SAC, Washington Field

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| COMMUNICATIONS SECTION          |
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| FEDERAL BUREAU OF INVESTIGATION |
| U.S. DEPARTMENT OF JUSTICE      |

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# Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

DATE: February 20, 1948

FROM : SAC, New Haven

SUBJECT: UNITED STATES NAVY CONTACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR TRAFFIC CLAIM - CIVIL SUIT  
Bureau File 46-13326

Reference is made to Bureau letter dated 2/10/48 and to reports of SA(A) J. BERNARD COOK dated 1/7/48 and 2/6/48, Washington Field.

Investigation in Greenwich, Connecticut, has disclosed that MAX W. THORNBERG has not resided in this town for more than one year. According to Mr. RAYMOND L. DUNN, druggist and former neighbor of THORNBERG, the latter returned to Bahrein, Saudi Arabia approximately five weeks ago. He was preceded by his wife, LEILA, and son, "RUSTY" by one month. Mr. DUNN stated that he had learned from THORNBERG and his wife that the THORNBERGS plan to live permanently in Saudi Arabia, where they have recently constructed a "very special home" on an island in the Persian Gulf. Mr. DUNN went on to state that THORNBERG had told him that he, THORNBERG, was planning to renounce his American citizenship and to take out Arabian nationality, so as to avoid payment of income tax in the United States and to facilitate his work in Saudi Arabia. Moreover, THORNBERG stated at his departure that he had no idea when he would return to the United States and did not plan to return unless some emergency required his presence here.

Mr. DUNN advised that from his numerous conversations and contacts with THORNBERG he formed the opinion that THORNBERG was a "big time operator". Asked to define this opinion, Mr. DUNN explained that although THORNBERG was a competent, shrewd and intelligent executive, he gave the impression of being engaged in underhanded negotiations. Mr. DUNN added that he had also heard THORNBERG described as a "big time operator" by one JACK FRYE, who is THORNBERG's agent in Canada and Great Britain. He did not ask FRYE to explain what he meant by the term for fear of expressing too much interest in THORNBERG's activities.

At the present time THORNBERG holds the position of oil consultant for the "Big Three" oil companies operating in Saudi Arabia. Moreover, he serves as liaison between these companies and the King, IBE SAUD, of Arabia with whom, he is reported by Mr. DUNN, to be on very friendly terms. THORNBERG is also a director of the Twentieth Century Fund which is engaged in the Middle East in establishing educational institutions. Mr. DUNN believes that THORNBERG has other interests in the Middle East, but could not state what they were.

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46-262

cc-Washington Field (66-1806)

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Mr. DUNN recalled that on one or two occasions when he was in the presence of THORNBERG the latter was visibly disturbed by investigations being conducted by Congress which might involve him. Still on another occasion when THORNBERG was visiting at Mr. DUNN's apartment, THORNBERG told the latter not to be alarmed if agents of the FBI called for THORNBERG to explain charges made by a radio news commentator that THORNBERG, while serving as advisor of Petroleum Affairs to the State Department at \$6,000. per annum, was receiving \$38,000. from oil companies for whom he had previously been employed.

Mr. DUNN advised that his wife had recently received a letter from THORNBERG's wife wherein the latter stated that THORNBERG had arrived safely and that the work of furnishing and decorating their new house was proceeding satisfactorily. The return address on this letter was Bahrain, Saudi Arabia. No mention was made as to when they would return to the U. S. Mr. DUNN recalled further that a little over two months ago, while he and his wife were at the LaGuardia Airport in New York to see Mrs. THORNBERG and her son off for Arabia, Mr. THORNBERG gave the latter return trip tickets and instructed them to take the first plane for the U. S. should any trouble break out in Saudi Arabia as a result of the UN's partition of Palestine, a move that was strongly opposed by THORNBERG.

In view of THORNBERG's reported presence in Saudi Arabia this case is being referred upon completion to the office of origin.

## Office Memorandum • UNITED STATES GOVERNMENT

TO Director, FBI

DATE February 18, 1948

FROM SAC, New York

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT  
(Bureau File 46-13326)

Re San Francisco letter to Bureau 2/13/48 which refers to report of SA John B. Cook, 1/7/48, Washington, D.C., and requests "that the New York Office cover that portion of the lead set out for San Francisco in referenced report that deals with ascertaining production costs on oil products sold to the Navy by California Texas Corporation".

The lead set out for San Francisco in reference report of 1/7/48 requests that cost information be obtained from the Arabian-American Oil Company relative to products sold to the Navy under contract set forth in reference report and makes no mention of cost figures of the California Texas Corporation.

In view of the above, no attempt will be made by the New York Office to obtain cost figures from the California Texas Company unless requested to do so by the office of origin.

cc: San Francisco (46-1186)  
Washington Field (46-1908)

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5 FEB 26 1948



SAC, New Haven

February 10, 1948

Director, FBI

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR PIANO CLAIM - CIVIL SUIT

EX-1

Re: Rep SAA J. Bernard Cook, Washington Field, 2/4/48.

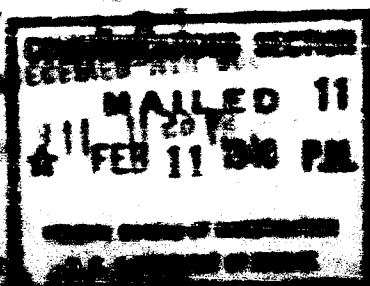
For your information the name of Max Thornburg has figured prominently in the Washington, D. C., press relative to hearings on the captioned matter being held by the Brewster Committee. The original instructions from the Claims Division concerning the interview with Thornburg, and others read as follows: "It is requested that an investigation be made of the extent, if any, in which the following named persons participated while as United States Government officials or in the Armed Forces in securing contracts for the sale of Saudi Arabian and Petroleum Products to the United States Navy by Caltex and Aramco."

In view of the intense interest of the Brewster Committee in this subject and the publicity attendant thereto, you are requested to assign the lead set forth in Agent Cook's report to a mature and thorough agent who has previously reviewed the reports of SAA J. Bernard Cook, Washington Field, dated January 7, 1948, and February 6, 1948.

Washington Field is instructed to forward one copy of Agent Cook's report dated January 7, 1948, to the New Haven Office. New Haven, after adequate preparation, will conduct the interview and submit a report reflecting its results as early as practicable.

cc: Washington Field

HES:mfr



Handwritten initials 'WBS' at the top right.  
A circular stamp with 'RECEIVED' at the top and 'FEB 11 1948' in the center.  
Handwritten initials 'WBS' at the bottom right.

Mr. H. G. Morrison  
Acting Assistant Attorney General  
Attention: R. Joseph M. Friedman  
Director, FBI

February 24, 1948

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS.  
SAN FRANCISCO CLAIM CIVIL SUIT.

Attached for your prompt attention is a copy of a memorandum dated February 13, 1948, from this Bureau's San Francisco office, reflecting that officials of the Arabian American Oil Company at San Francisco desire a letter from the Attorney General setting forth certain information before divulging data concerning their costs.

I would appreciate your early reply indicating what action your Division will take in view of the oil company's position in the premises.

*Attachment*

RECORDED

46-13326 - 57

EX-100

Mr. Tolson  
Mr. E. A. Tamm  
Mr. Clegg  
Mr. Glavin  
Mr. Ladd  
Mr. Nichols  
Mr. Rosen  
Mr. Tracy  
Mr. Carson  
Mr. Egan  
Mr. Gurnea  
Mr. Hendon  
Mr. Pennington  
Mr. Quinn  
Mr. Nease  
Miss Gandy

COMMUNICATIONS SECTION  
MAILED 11  
★ FEB 24 1948 P.M.  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

FBI  
REC-100-1111 501  
FEB 24 1948

*E.A.*

*RG*

*rdc*

51 FEB 27 1948

# Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

FROM : GUY BUTTE, SAC, Washington Field

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS;  
WAR FRAUD CLAIM - CIVIL SUIT

DATE: February 14, 1948

Rebulet to New Haven dated February 10, 1948.

There is enclosed herewith to the New Haven Office one copy of the report of Special Agent (A) J. BERNARD COOK dated January 7, 1948.

It is requested that upon completion of the investigation in the New Haven Office that this copy be returned to the Washington Field Office.

The New Haven Office is requested to conduct the investigation requested immediately in view of the fact that this case is of prime importance to the Bureau.

RECORDED - 115 118 119

16-1948

cc - New Haven (encl)

*R*

*Z*

RECORDED 11-13320

FBI

19 FEB 16 1948

*Handwritten initials*

G.I.R.A

53 FEB 18 1948

SAC, Washington Field

February 10, 1948

Director, FBI

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT

In order that this investigation may be completed as expeditiously  
as possible consistent with a full exploration of the facts, you are requested  
to stress the Bureau's desire that this investigation go forward speedily  
in any communications, including reports, directed to auxiliary offices.

100-220

WJ:dlr

*Handwritten:* 55  
FEB 13 1 11 PM '48  
FEB 12 1948  
U-120

- Mr. Tolson
- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Gurnea
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn
- Mr. Nease
- Miss Gandy

COMMUNICATIONS SECTION  
 MAILED 8  
 FEB 10 1948 PM  
 FEDERAL BUREAU OF INVESTIGATION  
 DEPARTMENT OF JUSTICE

**SECRET**

FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE  
COMMUNICATIONS SECTION

FEB 10 1978  
*Com*  
TELETYPE

Mr. Tolson  
Mr. E. A. Tamm  
Mr. Clegg  
Mr. Glavin  
Mr. Ladd  
Mr. Nichols  
Mr. Rosen  
Mr. Tracy  
Mr. Egan  
Mr. Gurnea  
Mr. Harbo  
Mr. Mohr  
Mr. Pennington  
Mr. Quinn  
Mr. Nease  
Miss Gandy

RLS

WASH TO FROM CG 0 6 10 6-22 PM

DIRECTOR URGENT

SAN FRANCISCO ADVISED BY SEPARATE TELETYPE

U. S. NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS,  
WAR FRAUD CLAIM, CIVIL SUIT. RE REPORT SAA JOHN B. COOK AT WFO JANUARY  
SEVEN LAST. GEORGE LEIGHT PARKHURST HAS MOVED TO CALIFORNIA. SPENCER  
STANDARD OIL COMPANY HERE ADVISES PARKHURST NOW EMPLOYED STANDARD OIL  
COMPANY OF CALIFORNIA, TWO TWO FIVE BUSH STREET, SAN FRANCISCO. SF  
REQUESTED TO INTERVIEW HIM IN ACCORDANCE WITH CHICAGO LEAD IN  
REFERENCED REPORT AND BUREP. RUC.

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B  
37 FEB 1978

MC SWAIN

46-13376

*6 nls*

7 FEB 11 1978  
CC TO WASH FIELD BY MAIL  
END AND ACK J

Serial 54

CC: MR. ROSEN, MR. FERRINGTON, MR. SCHWELB

SAC, Washington Field

January 29, 1948

Director, FBI

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SHORT ARABIAN PETROLEUM PRODUCTS  
AND FRAUD CLAIM - CIVIL SUIT

Reference is made to the report of Special Agent (A) John B. Cook,  
Washington Field, January 7, 1948.

For your information the captioned case continues to hold the interest  
of the Brester Committee (full title, Senate Committee Investigating the  
National Defense Program). The interest of this Committee has occasioned  
considerable publicity, and it is therefore incumbent upon the Bureau to con-  
tinue the investigation with all possible dispatch.

Your office is therefore requested to afford this case the most  
expeditious attention consistent with a full and thorough determination of  
the facts.

- Baltimore
- Boston
- Chicago
- El Paso
- Los Angeles
- New York
- San Francisco

RECEIVED DIRECTOR  
 F B I  
 U S DEPT. OF JUSTICE  
 JAN 30 9 20 AM '48

RES:MS

COMMUNICATIONS SECTION  
 MAILED 2  
 JAN 30 1948 P.M.  
 FEDERAL BUREAU OF INVESTIGATION  
 U. S. DEPARTMENT OF JUSTICE

80 FEB 19 1948

RECORDED

EX-127

*JW*

*MS*

*MS*

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1

THIS CASE ORIGINATED AT **WASHINGTON, D. C.**

Butte FILE NO. **46-171**

|   |                                  |   |  |
|---|----------------------------------|---|--|
| REPORT MADE AT<br><b>Butte, Montana</b>   | DATE WHEN MADE<br><b>1/28/48</b> | PERIOD FOR WHICH MADE<br><b>1/14, 23/48</b> | REPORT MADE BY<br><b>WALTER T. GRAY AIA</b>            |
| TITLE<br><b>UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS</b> |                                  |   | CHARACTER OF CASE<br><b>WAR FRAUD CLAIM CIVIL SUIT</b> |

**SYNOPSIS OF FACTS:**

**MAURICE BROOKS FITZGERALD**, Sales Manager, Carter Oil Company, Billings, Montana, states while working for the Petroleum Administration for War, PWA, he was Assistant Director of Construction Division for refineries only and knows nothing regarding contracts for production of crude oil. He states he does not know **A. A. MacERILLIS**.

NO COPIES

7 9 10 11 12

BI STAT SEC

RUC

**Reference:**

Report of SA **JOHN E. COOK** dated January 7, 1948, Washington, D. C.  
Bureau File No. 46-13326.

**Details:**

**AT BILLINGS, MONTANA**

**MAURICE BROOKS FITZGERALD** is employed as Sales Manager for the Carter Oil Company, Billings, Montana. He stated he was employed by the Petroleum Administration for War, War Production Board, Washington, D. C. from May, 1942, to March, 1945, as Assistant Director of Construction for refineries only. His duties consisted of securing materials for construction of various refineries including the construction for the Saudi Arabian Oil Company. He stated he knew nothing regarding contracts for the purchase of crude oil and did not have the knowledge that would have been of assistance to anyone as he has had no training or experience along this line. He advised that he was not

|  |  |
|--|--|
| <p>COPIES OF THIS REPORT</p> <p>3 - Bureau</p> <p>3 - Washington Field (46-1906)</p> <p>2 - Butte</p> <p><b>COPY IN FILE</b></p> | <p style="text-align: right;">RECORDED</p> <p style="text-align: center; font-size: 2em;">46-171-5</p> <p style="text-align: center; font-size: 1.5em;">FEB 3 1948</p> |
|--|--|

BT 46-171

acquainted with A. A. MacRILLE and could not recall that MacRILLE could have ever contacted him.

He stated that he was well acquainted with GEORGE PARKHURST and was of the belief that PARKHURST would have information along the lines desired in this investigation. If not, PARKHURST could name numerous persons who should have such information. He suggested that GEORGE GIBSON of 110 Montclair Avenue, Montclair, New Jersey be interviewed. GIBSON was not connected with the production of crude oil but seemed to know a great deal about it. No lead is being set out to interview GIBSON inasmuch as reference report contains a lead to interview PARKHURST who can apparently furnish the information desired.

REFERRED UPON COMPLETION TO THE OFFICE OF ORIGIN



# FEDERAL BUREAU OF INVESTIGATION

Form No. 1

THIS CASE ORIGINATED AT

WASHINGTON, D.C.

FILE NO. 46-493

|                                    |                                  |   |  |
|------------------------------------|----------------------------------|---|--|
| REPORT MADE AT<br><b>BALTIMORE</b> | DATE WHEN MADE<br><b>1/29/48</b> | PERIOD FOR WHICH MADE<br><b>1/23/48</b> | REPORT MADE BY<br><b>J. DANSON VAN EPS</b> /cw |
|------------------------------------|----------------------------------|---|--|

|   |  |
|---|--|
| TITLE<br><b>UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS</b> | CHARACTER OF CASE<br><b>WAR FRAUD CLAIM CIVIL SUIT</b> |
|---|--|

**SYNOPSIS OF FACTS:**

NO STATISTICS  
 FEB 9 3 09 PM '48  
 REFERENCE

California Texas Corporation incorporated in Delaware December 6, 1946. Names of incorporators, directors and officers set

R U C

Bureau file 46-13326

Report of SA(A) JOHN B. COOK dated 1-7-48 at Washington, D.C.

**DETAILS:**

AT DOVER, DELAWARE

Miss HELEN SCANLON, Corporation Department, Secretary of States Office, advised that her records include nothing on a California Texas Products Company but that the California Texas Corporation was incorporated in the State of Delaware on December 6, 1946.

The file of the California Texas Corporation was reviewed and reflects that the resident agent in Delaware is the Prentice-Hall Corporation System, Inc., 317-325 S. State Street, Dover, Delaware. Incorporators are as follows:

- |                    |   |
|--------------------|---|
| MILES W. HENBY JR. | 21 Bank Street, New York, New York          |
| ROBERT G. SPRAGUE  | 8 Midchester Avenue, White Plains, New York |
| ROBERT J. DEHN     | 131 Manor Lane, Falham Manor, New York      |

STOR 21

2 DEPT OF JUSTICE

DO NOT WRITE IN THESE SPACES

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| <p>3 Bureau</p> <p>3 Washington Field (46-1908)</p> <p>2 Baltimore</p> | <p>46-13326-20</p> <p><b>RECORDED</b></p> <p style="font-size: 2em; font-weight: bold;">F B I</p> |
|--|---|

Baltimore 46-493

The 1946 Annual Report of the California Texas Corporation was received January 3, 1947, and mentions that the principal place of business outside of the State of Delaware is 135 East 42nd Street, New York, New York.

The Annual Report lists the following directors:

|                  |   |
|------------------|---|
| H. D. COLLIER    | 225 Bush Street, San Francisco 20, California |
| B. W. LETCHER    | 225 Bush Street, San Francisco 20, California |
| L. H. LINDEMAN   | 135 East 42nd Street, New York 17, New York   |
| J. H. MacGARGILL | 225 Bush Street, San Francisco 20, California |
| C. E. OLNSTED    | 135 East 42nd Street, New York 17, New York   |
| W. S. S. RODGERS | 135 East 42nd Street, New York 17, New York   |

The officers are:

|                       |                 |  |
|-----------------------|-----------------|--|
| Chairman of the Board | C.E. OLNSTED    | 135 E. 42nd St., New York 17, N.Y.     |
| President             | J.H. MacGARGILL | 225 Bush St., San Francisco 20, Calif. |
| Vice President        | B.W. LETCHER    | 225 Bush St., San Francisco 20, Calif. |
| Vice President        | L.H. LINDEMAN   | 135 E. 42nd St., New York 17, N.Y.     |
| Secretary             | W.G. ELICKER    | 135 E. 42nd St., New York 17, N.Y.     |
| Treasurer             | L.H. LINDEMAN   | 135 E. 42nd St., New York 17, N.Y.     |

The term of the above mentioned directors and officers expired April 1, 1947.

Capital Status as set out in the 1946 Annual Report is 20,000 shares of common stock, par value \$100.00 per share authorized and 10,000 shares issued. Total Gross Assets are not reported.

The 1947 Annual Report was received January 6, 1948, and 551 Fifth Avenue, New York 17, New York, is given as the principal place of business outside of the State of Delaware. It includes the following information:

Directors:

|                 |   |
|-----------------|---|
| H. D. ARMSTRONG | 225 Bush Street, San Francisco 20, California |
| D. J. BANNA     | 551 Fifth Avenue, New York 17, New York       |
| W. H. HERRON    | 551 Fifth Avenue, New York 17, New York       |
| B. W. LETCHER   | 225 Bush Street, San Francisco 20, California |
| T. L. LENZEN    | 225 Bush Street, San Francisco 20, California |
| L. H. LINDEMAN  | 135 East 42nd Street, New York 17, New York   |
| G. W. OYON      | 135 East 42nd Street, New York 17, New York   |
| W. H. PIERCE    | 551 Fifth Avenue, New York 17, New York       |

Baltimore 46-493

**Officers:**

|                       |               |   |
|-----------------------|---------------|---|
| Chairman of the Board | H.M. HERRON   | 551 Fifth Avenue, New York 17, New York |
| President             | W.H. PINCKARD | 551 Fifth Avenue, New York 17, New York |
| Vice President        | D.J. HANNA    | 551 Fifth Avenue, New York 17, New York |
| Vice Pres. (Fiscal)   | M. MacYER     | 551 Fifth Avenue, New York 17, New York |
| Secretary             | A.E. THAYER   | 551 Fifth Avenue, New York 17, New York |
| Treasurer             | F.H. PAUL     | 551 Fifth Avenue, New York 17, New York |
| Comptroller           | R.G. HANKIN   | 135 East 42nd St., New York 17, N.Y.    |
| Assistant Secretary   | L.C. NEAN     | 551 Fifth Avenue, New York 17, New York |
| Assistant Treasurer   | R.E. LUDT     | 551 Fifth Avenue, New York 17, New York |
| Assistant Comptroller | S.J. STACEY   | 130 East 43rd Street, New York 17, N.Y. |

The terms of the Directors and Officers expire April 14, 1948.

Mr. F. K. TULLAR, Delaware Secretary, the Prentice-Hall Corporation System Inc., 317 S. State Street, advised that the California Texas Corporation was incorporated in Delaware by his office as a routine matter at the instigation of a New York law firm, the name of which was not mentioned. Mr. TULLAR advised that "dummy incorporators" were not used and indicated that the original incorporators are members of the California Texas Corporations law firm.

REFERRED UPON COMPLETION TO THE OFFICE OF ORIGIN

Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

DATE: January 22, 1948

FROM : GUY HOTTEL, SAC, Washington Field

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT

This is in reference to your letter dated January 13, 1948.

It is requested that you obtain from the Internal Revenue Bureau the Federal income tax returns of the Arabian American Oil Company, 200 Bush Street, San Francisco, California, from 1943 to date.

JBC:KMH

46-1908

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SERIALIZED BY

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1270 cc  
Ching  
J.A.  
1-29-48  
NRS*

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F B I  
21 JAN 23 1948

EX-122

*[Handwritten initials]*

SECRET

SAC, Washington Field

December 31, 1947

Director, FBI

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF MARINE SPARTAN DISTILLERS EQUIPMENT  
RAB FRAUD CLAIM - CIVIL SUIT

Rebulet 11/25/47.

It is imperative that this case be afforded prompt investigative  
attention. Please expedite the submission of a report.

46-13326

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46-13326-47  
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COMMUNICATIONS SECTION  
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★ DEC 31 1947 P.M.  
U. S. DEPARTMENT OF JUSTICE

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SAC, Washington Field

January 13, 1948

Director, FBI

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT

Bourlet January 6, 1948.

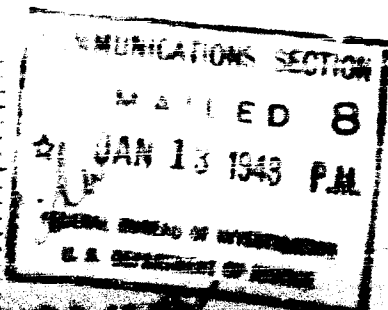
You are requested to furnish the Bureau with the exact address of each of the companies whose Federal income tax returns you desire. Upon the receipt of this information a request will be made by the Bureau of the Commissioner of Internal Revenue. Your office is requested to contact the Bureau of Internal Revenue to obtain the results of any investigation which that agency may have made of the operations of Caltex, a Bahaman corporation and Bahrain Petroleum Company, a Canadian corporation.

Your office will also determine from the Bureau of Internal Revenue the extent to which it is investigating the prices at which petroleum products are sold to the Caltex Oil Products Company by Aramco and Caltex for subsequent resale to the United States Navy.

RECORDED 46-13726

WMS:RDM

*CAG*



- Mr. Tolson
- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Gurnea
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn
- Mr. Nease
- Miss Gandy

*R  
S  
A*

Office Memorandum • UNITED STATES GOVERNMENT

TO : DIRECTOR, FBI  
FROM : GUY HOTTEL, SAC, WASHINGTON FIELD

DATE: January 6, 1948

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE OF  
SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT  
Bureau file No. 46-13326

It is requested that you obtain from the Internal Revenue Bureau the federal income tax returns filed by the Arabian American Oil Company of San Francisco and New York City for the period 1943 to date.

You are also requested to inquire in order to determine the extent, if any, to which the Bureau of Internal Revenue has reviewed the operations of the California Texas Company, a Bahaman corporation, and the Bahrain Petroleum Company, a Canadian corporation.

In connection with this investigation it is requested that you determine the extent, if any, to which the Bureau of Internal Revenue is investigating the prices at which petroleum products are sold to the California Texas Oil Products Company, also known as the Caltex Products Company, by the Arabian American Oil Company and the California Texas Company for subsequent resale to the United States Navy.

46-13326  
46-1928

RECORDED

33 JAN 6 1948

1-10-48  
HRS  
St. Paul Field  
1/13/48, T.H.S.

*[Handwritten initials]*

CC: MR. ROSEN, MR. CARROLL, MR. PENNINGTON, MR. SCHEIDT

SAC, Washington Field

November 25, 1947

Director, FBI

ARMED STATES NAVY CONTACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
THE FLEET CLUTE - CIVIL SUIT

*Handwritten initials and date: 11/27/47*

Reference is made to Washington Field File 44-1444 entitled "Arabian American Oil Company; California Arabian Standard Oil Company, Inc." As you will recall, your office and auxiliary offices conducted extensive investigation on the criminal phase of this case.

Attached for immediate and continuous attention are two memoranda from Dr. Robert A. Bergson, Acting Assistant Attorney General, dated October 13, and November 13, 1947. You will note that the Clute Division desires that this investigation proceed despite the fact that no decision has yet been made by the Criminal Division on the basis of your earlier investigation.

A review of Dr. Bergson's memoranda indicates the possibility of interest on the part of other offices than Washington Field. However, it is believed that such auxiliary investigation will be dependent upon the results of investigation conducted by your office. You are, therefore, requested to assign this case to an experienced agent, preferably to the agent who conducted the criminal investigation. The first report emanating from your office should outline the entire situation as indicated by the Clute Division memoranda. An appropriate lead should thereafter be set forth to those offices where supplementary investigation is indicated. Particular attention should be paid to the third paragraph of the November 13, 1947, memorandum concerning the investigation conducted by the Director's Division. Attention of the public by which the Bureau would then investigate generated, it is suggested that this case be afforded a high priority and that sufficient personnel be assigned to insure a complete and expeditious treatment of the matter. The first report should be submitted by your office within thirty days of your receipt of this memoranda.

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| NOV 26 1947  |
| FEDERAL BUREAU OF INVESTIGATION<br>U. S. DEPARTMENT OF JUSTICE |

NOV 10 1947

*Handwritten signatures and initials: [Signature], [Signature], [Initials]*



cc: Mr. Eason  
Mr. Carroll  
Mr. Pennington  
Mr. Clegg

Assistant Attorney General J. Vincent  
Criminal Division  
Director, FBI

October 16, 1947

ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

Reference is made to your memorandum of September 16, 1947, your  
reference 146-38-40.

I shall appreciate information as to whether or not a decision has  
been reached in this matter.

REC-47

45-1374

X-124

Serial 42

Assistant Attorney General E. Vincent Quinn  
Criminal Division  
Director, FBI

August 7, 1947

ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

~~CONFIDENTIAL~~

Reference is made to your memorandum of March 11, 1947, in which an investigation of the above-captioned matter was requested.

Enclosed herewith are two copies of the report of Special Agent John A. Magby, III, dated July 31, 1947, at Miami, Florida. Previous reports reflecting investigation in this matter have been made available to the Division of Records.

Inasmuch as the investigation has now been completed, it would be appreciated if you would cause a necessary review of the results of the investigation conducted and advise if any further inquiry is desired.

Enclosure

COMMUNICATIONS SECTION  
MAILED 8  
AUG 8 1947 P.M.  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

58 SEP 10 1947

10/11

SAC, Washington Field

September 2, 1947

Director, FBI

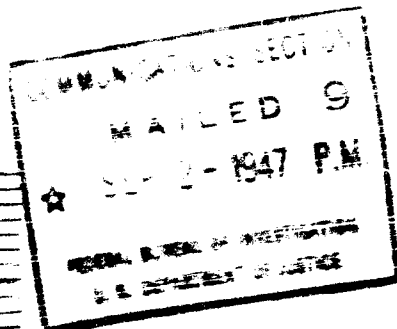
ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

Reurlet 8/11/47.

This matter was referred to the Department on August 7, 1947.  
Your office will be advised of any further investigation which the Department  
may desire.

44-13326

KCC:clr



SEP 5 1947

*[Handwritten signatures and initials]*

# Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

DATE: August 11, 1947

*By* FROM : SAC GUY HOTTEL, Washington Field Office

SUBJECT: ARABIAN AMERICAN OIL COMPANY  
~~CALIFORNIA ARABIAN STANDARD OIL COMPANY~~  
FRAUD AGAINST THE GOVERNMENT

The Bureau is requested to advise if any further action is desired in the above entitled case, inasmuch as all outstanding leads have been covered.

JRC:IPB  
46-1644

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EX-34

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FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE  
COMMUNICATIONS SECTION

JUL 30 1947

TELETYPE

Mr. Tolson  
Mr. E. A. Tamm  
Mr. Clegg  
Mr. Glavin  
Mr. Ladd  
Mr. Nichols  
Mr. Rosen  
Mr. Tracy  
Mr. Carson  
Mr. Egan  
Mr. Gurnea  
Mr. Harbo  
Mr. Hendon  
Mr. Pennington  
Mr. Quinn  
Mr. Nease  
Miss Gandy

*JJ*

*[Handwritten signatures]*

FBI MIAMI 7-30-47 11-15 AM LIA

DIRECTOR, FBI URGENT

ARABIAN AMERICAN OIL COMPANY, ETAL, SAC. REURTEL JULY TWENTYNINE  
REPORT SPECIAL AGENT JOHN A. HANLEY WILL BE SUBMITTED BUREAU AUGUST ONE.

CARSON

END

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13326-27

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JUL 31 1947

FEDERAL BUREAU OF INVESTIGATION  
UNITED STATES DEPARTMENT OF JUSTICE

CC-1

To: COMMUNICATIONS SECTION.

Transmit the following message **5:12 PM, 1947**

**URGENT**

**SAC, MIAMI**

**ARABIAN AMERICAN OIL COMPANY, ET AL, FUG. REURTEL TWENTY-FIRST INSTANT.  
IMMEDIATELY ADVISE NAME OF AGENT AND DATE HE OR SHE SUBMITTED TO THE BUREAU  
REFLECTING INTERVIEW WITH HARTWELL.**

**ROUTED**

**CH:rom  
66-13326**

*Handwritten:* 44-13326-  
3 33 36 10 11 1947

*Vertical stamp:* JUN 30 1947

*Handwritten initials:* AHS  
CMT

|                |  |
|----------------|--|
| Mr. Tolson     |  |
| Mr. E. A. Tamm |  |
| Mr. Clegg      |  |
| Mr. Glavin     |  |
| Mr. Ladd       |  |
| Mr. Nichols    |  |
| Mr. Rosen      |  |
| Mr. Tracy      |  |
| Mr. Carson     |  |
| Mr. Egan       |  |
| Mr. Gurnea     |  |
| Mr. Hendon     |  |
| Mr. Pennington |  |
| Mr. Quinn      |  |
| Mr. Nease      |  |
| Miss Gandy     |  |

**JUN 30 1947**

**TELETYPE**

36

**SENT VIA**

*Handwritten:* 0 10

U. S. DEPARTMENT OF JUSTICE  
COMMUNICATIONS SECTION

JUL 22 1947

*Am*  
TELETYPE

FBI, MIAMI

7-22-47

11.20 AM

MCD

DIRECTOR, FBI

U R G E N T

ADRIAN AMERICAN OIL COMPANY, ETAL, FAC. REBUTEL TODAY. SEE NY

JULY TWENTYONE LAST.

CARSON

END

ACK AND DISC PLS

12-17 PM CE FBI WA OVVY

850

DELE

7 55

*Mr. Toward*

46-13326 - 35  
F B I

RECEIVED JUL 24 1947

50 AUG 1 1947

*Handwritten notes:*  
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FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE  
COMMUNICATIONS SECTION

JUL 17 1947

TELETYPE

|                |  |
|----------------|--|
| Mr. Tolson     |  |
| Mr. E. A. Tamm |  |
| Mr. Clegg      |  |
| Mr. Glavin     |  |
| Mr. Ladd       |  |
| Mr. Nichols    |  |
| Mr. Rosen      |  |
| Mr. Tracy      |  |
| Mr. Carson     |  |
| Mr. Egan       |  |
| Mr. Gurnea     |  |
| Mr. Harbo      |  |
| Mr. Hendon     |  |
| Mr. Pennington |  |
| Mr. Quinn Tamm |  |
| Mr. Nease      |  |
| Miss Gandy     |  |

FBI MIAMI

7-21-47

7:13 PM

DIRECTOR, FBI AND SAC, WASHINGTON FIELD

URGENT

ARABIAN AMERICAN OIL COMPANY, ETAL, PAC, REWA TEL JULY SIXTEEN LAST AND NYTEL JULY SEVENTEEN LAST. CARL W. BARTHELMUSS INTERVIEWED AND IS ATTEMPTING TO OBTAIN DOCUMENTARY STATEMENTS FURNISHED SENATE INVESTIGATING COMMITTEE. STATEMENTS WILL NOT BE AVAILABLE UNTIL WEDNESDAY, JULY TWENTYTHREE NEXT. REPORT WILL BE SUBMITTED IMMEDIATELY BY THIS OFFICE AFTER THAT DATE.

CARSON

A AND H PLS

WA 21-0000 8-16 PM OR FBI VA BU

RECORDED  
INDEXED

146-13326  
JUL 23 1947  
15 JUL 23 1947

RECORDED BY  
INDEXED BY

34

FOR OFFICE USE

50



NA  
6/26

|            |
|------------|
| No. _____  |
| Date _____ |
| Time _____ |

FBI, WASH FIELD

7/18/47

4:30 p.m.

*Rota*

DIRECTOR AND SAC, MIAMI

*W. J. ...*  
*[Signature]*

ARABIAN AMERICAN OIL COMPANY, ETAL. EXPEDITE LEAD SET OUT IN REPORT  
OF SAA J. BERNARD COOK DATED JULY THIRD LAST.

*G.I.R.S.*

HOTTEL

JBC:NR  
46-1644

*[Handwritten mark]*

RECORDED  
**F B I**  
 JUL 23 1947  
 EX-43

Serial 33

53 AUG 1 1947

*[Handwritten mark]*

**URGENT**

JULY 21, 1947

SAC, MIAMI

ARABIAN AMERICAN OIL COMPANY, P.A.S. IMMEDIATELY RESPOND TO  
HOTEL JULY FIFTEEN REQUESTING ADVICE IF BARTHELMUSS LOCATED  
AT ST. PETERSBURG AND WHEN REPORT MAY BE EXPECTED.

HOOVER

CBH:DC  
46-13328

Serial 32

TELETYPE

FEDERAL BUREAU OF INVESTIGATION  
UNITED STATES DEPARTMENT OF JUSTICE

CC-150

To: COMMUNICATIONS SECTION. JULY 15, 1947

URGENT

Transmit the following message to: SAC, MIAMI

ARABIAN AMERICAN OIL COMPANY, P.A.C. REFER AGENT COOK DATED JULY THREE, FORTY-  
SEVEN AT WASHINGTON, D. C. IMMEDIATELY ADVISE IF BARTHELMESS LOCATED AT  
ST. PETERSBURG AND WHEN REPORT MAY BE EXPECTED.

HOOVER

6-13126

REC-11111

U.S. DEPT. OF JUSTICE  
JUL 16 1947

Handwritten initials and scribbles

FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE  
COMMUNICATIONS SECTION

Serial 29

JUL 15 1947

846P

Handwritten initials

Vertical list of names and initials on the left margin

JUL 24 10 10 AM TELETYPE

# Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. E. A. Tamm

DATE: July 1, 1947

FROM : A. Rosen

Time of Call: 2:45 PM

SUBJECT: ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

- Mr. Tolson
- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Coffey
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Egan
- Mr. Gurnea
- Mr. Harbo
- Mr. Hendon
- Mr. Jones
- Mr. Quinn
- Mr. Nease
- Miss Gandy

SAC Hottel called and advised that the Navy Department had been contacted regarding this matter and they advised that a report had been given to the Brewster Committee. Mr. Hottel inquired if they should go directly to the Brewster Committee in this regard.

ACTION

I advised Mr. Hottel to take no further action at this time.

*We are preparing memo  
to Candler & this.*

AR:FE

RECORDED 146-1000-28  
INDEXED  
EX-31 123  
JUL 1 1947

37 JUL 1 1947

SAC, Richmond

July 2, 1947

Director, FBI

PERSONAL AND CONFIDENTIAL

ARAMIAN AMERICAN OIL COMPANY, ET AL  
RAC

Reference is made to the report of SA Merrill E. Brennan, dated 6-20-47, at Washington, D. C., wherein a lead was set forth for your office to interview C. W. Barthelme at Arlington, Virginia. The report further indicated the Bureau has instructed that the investigation in this case be completed and report submitted to the Bureau and Washington Field Office by 7-25-47. This dead line was not met by your office and in addition, upon receiving information that Mr. Barthelme had moved from Arlington, Virginia, leaving a forwarding address of General Delivery, St. Petersburg, Florida, you did not expeditiously request the Field Office to conduct the required investigation. Such action made it necessary that the Washington Field Office request such investigation resulting in still further delay in this matter.

Dead lines for the completion of investigations are not set by the Bureau without adequate reason, and it is intended that very good purposes will be served by completing the investigation within a specified date. It is imperative that you comply with dead lines set by the Bureau.

100-13326

|                |  |
|----------------|--|
| Mr. Tolson     |  |
| Mr. E. A. Tamm |  |
| Mr. Clegg      |  |
| Mr. Glavin     |  |
| Mr. Ladd       |  |
| Mr. Nichols    |  |
| Mr. Rosen      |  |
| Mr. Tracy      |  |
| Mr. Carson     |  |
| Mr. Egan       |  |
| Mr. Gurnea     |  |
| Mr. Hendon     |  |
| Mr. Pennington |  |
| Mr. Quinn      |  |
| Mr. Nease      |  |
| Miss Gandy     |  |

100-13326-100

SEARCHED

SERIALIZED

INDEXED

FILED

JUL 2 1947

FBI - RICHMOND

*[Handwritten initials: E.A., W.S., N.]*

FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE  
COMMERCIAL SECTION

JUN 30 1947

TELETYPE

|                |  |
|----------------|--|
| Mr. Tolson     |  |
| Mr. E. A. Tamm |  |
| Mr. Clegg      |  |
| Mr. Glavin     |  |
| Mr. Ladd       |  |
| Mr. Nichols    |  |
| Mr. Rosen      |  |
| Mr. Tracy      |  |
| Mr. Egan       |  |
| Mr. Gurnea     |  |
| Mr. Harbo      |  |
| Mr. Mohr       |  |
| Mr. Pennington |  |
| Mr. Quinn      |  |
| Mr. Nease      |  |
| Miss Gandy     |  |

RECORDED BY  
7800

*Arabian American Oil Co.*

*Anthony*

WASHINGTON FROM PHILADELPHIA 1 6-30-47 11:37 A

DIRECTOR

AMERICAN ARABIAN OIL CO., FAC. PERUTEL JUNE TWENTYEIGHT. REPORT OF  
SAA ANTHONY J. SPLENDORE SUBMITTED JUNE TWENTYFIVE LAST FROM PHILA.

RECORDED  
JUN 14 1947

SE 3  
INDEXED 146-15306-47  
FBI  
19 JUN 1947

*cc: Mr. [illegible]*

FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE  
COMMUNICATIONS SECTION

JUN 28 1947

*re*  
TELETYPE

*Rec'd 6/28/47  
7:47 AM*

*Sp...*  
*[Signature]*  
*Offward*

WASHINGTON FROM SFRA 3/5

6-28-47

4-16 PM

RM

*✓* DIRECTOR

URGENT

ARABIAN-AMERICAN OIL COMPANY. FAG. REURTEL TODAY. INVESTIGATION  
OF CONDUCTED BY SA MATTHEW J. LIGHTBODY AND REPORT FORWARDED  
BUREAU AND JUNE TWENTY SIX LAST.

KINBALL

RECORDED  
EX-38

146-13320-  
F B I  
19 JUL 1 1947

62 JUL 24 1947

*[Signature]*  
cc: Mr. [Name]

**URGENT**  
**TELETYPE**

|                |       |
|----------------|-------|
| Mr. Tolson     | _____ |
| Mr. E. A. Tamm | _____ |
| Mr. Clegg      | _____ |
| Mr. Glavin     | _____ |
| Mr. Ladd       | _____ |
| Mr. Nichols    | _____ |
| Mr. Rosen      | _____ |
| Mr. Tracy      | _____ |
| Mr. Egan       | _____ |
| Mr. Gurnea     | _____ |
| Mr. Harbo      | _____ |
| Mr. Hendon     | _____ |
| Mr. Pennington | _____ |
| Mr. Quinn      | _____ |
| Mr. Nease      | _____ |
| Miss Gandy     | _____ |

*Forward*

FBI RICHMOND 6-25-47 8-16 PM EST AAA  
DIRECTOR URGENT

READIAM AMERICAN OIL COMPANY, TAG. REBUTEL TWENTYEIGHTH INSTANT.  
INVESTIGATION BY SA JAMES F. DUNNIN, JR. INDICATES C. W. [REDACTED]  
BARTHELME'S MOVED TO ST. PETERSBURG, FLA. SPECIAL DELIVERY LETTER  
DISPATCHED BUREAU THIS DATE, CC WASHINGTON FIELD.

BROWN

DND

9-16 PM OK FBI WASH DC 6/25/47

STOP DEK

EDWARDS

*W/19296*  
*cc Mr. Clegg*

60 JUL 9 1947

9-19



SAC, Washington Field

June 1947

Director, FBI

~~PERSONAL AND CONFIDENTIAL~~

ARABIAN AMERICAN OIL COMPANY, ET AL  
FAC

Reference is made to Bureau letter dated May 1, 1947, in which you were instructed to make a complete investigation of all charges involved in this matter and requested to expedite this investigation as much as possible. A dead line of thirty days was set for the completion of this investigation.

This dead line has not been met and it was necessary to call this matter to your attention by letter dated June 16, 1947, at which time this investigation was over two weeks delinquent. On June 19, 1947, you were telephonically contacted relative to the status of this case.

Dead lines for the completion of investigations are not set without adequate reason. It is intended that very good purposes will be served by completing the investigations within specified dates. The importance of this particular case was brought to your attention by letter dated March 14, 1947. Good judgment on your part would have dictated that this case receive preferred and continuous attention until brought to a logical conclusion, particularly in view of Bureau instructions that the investigation be completed by a given date. If for reasons beyond your control you found it impossible to meet the dead line, you should have advised the Bureau in advance, together with the reasons therefor.

It is imperative that the dead line of June 27, 1947, which has been set in this case, be met, and that you take appropriate action to see that all auxiliary offices are properly instructed.

RECEIVED  
DEPT. OF JUSTICE  
JUN 20 1947

RGA:MS

COMMUNICATIONS SECTION  
MAILED 10  
JUN 20 1947 P.M.  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

- Mr. Tolson
- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Gurnea
- Mr. Harbo
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn
- Mr. Nease
- Miss Gandy

51 AUG 11 1947  
copy

Handwritten initials and scribbles, including a large 'R' and 'MJC'.

Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

DATE: 6-29-47

FROM : SAC, Richmond

SUBJECT: ARABIAN AMERICAN OIL COMPANY;  
CALIFORNIA ARABIAN STANDARD OIL COMPANY;  
FRAUD AGAINST THE GOVERNMENT.

Reference report of SA MERRILL T. DRENNAN at Washington, D. C., dated 6-20-47. The records of the North Station, Arlington Post Office, reflect that Mr. C. W. BARTHELMES has moved from 1301 North Abingdon Street, Arlington, Va., in March of this year, leaving a forwarding address of General Delivery, St. Petersburg, Florida.

It is noted that the Bureau has instructed that the investigation be completed and a report submitted by June 26, 1947. In view of this, it is being left to the discretion of the Washington Field Office, to which a copy of this letter is being directed, as to whether or not it is advisable to still try and locate Mr. BARTHELMES through General Delivery, St. Petersburg, Fla. The enclosures to Richmond with the report of SA DRENNAN, above referred to, are being returned herewith to the Washington Field Office with their copies of this memorandum RUC.

JFD:AAA  
65-325

cc - Washington Field, with enclosures

SPECIAL DELIVERY

REMOVED TO BUREAU

19 JUN 30 1947

62

*Handwritten notes:*  
65-325  
10-1-47

*Handwritten notes:*  
44-1372-100  
FBI

CC: MR. PENNINGTON  
MR. AUWENBUCHER

JUNE 26, 1947 URGENT

SAC, ~~PHILADELPHIA~~

SAN FRANCISCO

RICHMOND

PHILADELPHIA

ARABIAN AMERICAN OIL COMPANY, INC. HENRY SA HENRI L. V. (REMIKEN DATED  
JUNE TWENTY EIGHT AT WASHINGTON. IMMEDIATELY ADVISE NAME OF AGENT WHO  
CONDUCTING INVESTIGATION AND DATE REPORT FORWARDED TO BUREAU.

REUVER

FOR INFO

66-13386

RECORDED

F B I

JUN 31 1947

LA 16

FEDERAL BUREAU OF INVESTIGATION  
COMMUNICATIONS SECTION

JUN 28 1947

TELETYPE

FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE  
COMMUNICATIONS SECTION

JUN 28 1947

TELETYPE

JUL 15 1947

Mr. Tolson  
Mr. E. A. Tamm  
Mr. Clegg  
Mr. Glavin  
Mr. Ladd  
Mr. Nichols  
Mr. Rosen  
Mr. Tracy  
Mr. Carson  
Mr. Egan  
Mr. Gurnea  
Mr. Hendon  
Mr. Pennington  
Mr. Quinn  
Mr. Nease  
Miss Gandy

RECEIVED  
JUN 29 1947

*[Handwritten signatures and initials]*

SAC, Washington Field

June 16, 1947

Director, FBI

ARABIAN AMERICAN OIL COMPANY  
- CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

G.I.R.S

Rebulet May 1 last. Please advise by return mail whether this case is receiving investigative attention and when a comprehensive report will be received at the Bureau.

It will be noted from a review of reference letter that you were instructed to submit a report in this matter within thirty days. This deadline has not been met and consequently this case is over two weeks delinquent in your office.

|                                 |         |
|---------------------------------|---------|
| SEARCHED                        | INDEXED |
| SERIALIZED                      | FILED   |
| JUN 19 1947 P.M.                |         |
| FEDERAL BUREAU OF INVESTIGATION |         |
| U. S. DEPARTMENT OF JUSTICE     |         |

ENCLOSURE

1326  
F B I  
68 JUN 21 1947

58 JUN 25 1947

Serial 10

Office Memorandum • UNITED STATES GOVERNMENT

TO : MR. E. A. TAMM

FROM : *[Handwritten initials]*

SUBJECT: ARABIAN AMERICAN OIL COMPANY, ET AL  
FRAND AGAINST THE GOVERNMENT.

DATE: June 19, 1947

I called Mr. Hottel and in his absence spoke to R. E. Sevby indicating the necessity for determining today the date upon which the instant investigation can be completed. I furnished Mr. Sevby with sufficient background information to point out the importance of this case and the fact that the Washington Field Office had the delinquency called to their attention under date of June 16, 1947.

ACTION TO BE TAKEN

Mr. Sevby will call me back today and Mr. Tamm will be advised today of the date of completion of this investigation.

ACTION TAKEN - 3:45 P.M.

SAC Hottel of the Washington Field Office telephonically advised that the report in this case with leads outstanding for New York, San Francisco, Los Angeles, Richmond and Philadelphia will go out tomorrow air mail, special delivery. Mr. Hottel was advised that this investigation should be completed and the report submitted to the Bureau by June 27.

AR:LS  
60 JUN 25 1947

RECORDED  
A-12

13

2064

# Office Memorandum • UNITED STATES GOVERNMENT

TO : DIRECTOR, FBI

FROM : GUY HOTTEL, SAC, WASHINGTON FIELD

DATE: June 19, 1947

SUBJECT: ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

61-18-5

Rebulet June 16, 1947. Investigation in this district has been made and a report is expected to reach the Bureau by June 21, 1947.

46-1644  
HD: SJH

CH  
1-7  
1-CH

RECORDED

46-1644-107  
JUN 23 1947

PAID

60 JUN 23 1947

Mr. Sharon L. Caudle, Assistant Attorney General  
Criminal Division

April 22, 1947

Director, FBI

ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

Reference is made to my memorandum dated April 9, 1947, in which you were advised that no investigation was contemplated by this Bureau relative to the circumstances surrounding the negotiations and award of the contract entered into by the Navy Department and the California Arabian Standard Oil Company, in the absence of a specific request by the Department.

It would be appreciated if you would advise me at your earliest convenience whether or not you desire the Bureau to conduct any investigation relative to the negotiations and award of the contract in question.

RGArwjs

*G. I. ...*

46-13326-6

MAILED 10  
APR 23 1947 P.M.  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

*Ed*

*3157*  
*1010*

- Mr. Tolson
- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Gurnea
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn
- Mr. Nease
- Miss Gandy

60 APR 6 1947

Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI  
FROM : GUY HOTTEL, SAC, Washington Field  
SUBJECT: ARABIAN AMERICAN OIL COMPANY;  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

DATE: April 2, 1947

Reference is made to the report of Special Agent MERRILL W. BRENNEN (A) dated April 2, 1947, at Washington, D. C., copies of which are enclosed.

It is called to the attention of the Bureau that the Senate Committee to Investigate National Defense (Brewster Committee) has conducted public hearings on this matter on March 28 and 29, 1947, at which time JAMES A. HOFFETT testified as to the background and principal facts surrounding the offer in 1941 and for three years thereafter. It appeared that the Committee's interest lies in the general picture concerning political and strategic factors and appeared to be aired at the present time due to the Middle Eastern crisis affecting at the present Greece and Turkey but closely allied to the strategic oil fields of the Middle East.

Further hearings by the Committee were deferred pending an investigation by former United States Senator HURTON L. WHEELER who will conduct a thorough inquiry, together with the members of the Investigative Staff of the Brewster Committee, and to report as soon as possible to the Executive Session of the Committee. At that time the Committee will decide further action and hearings to be conducted.

*See  
T-4*

G. I. R. -1

ENCLOSURES (5)

44-1644

RECORDED  
INDEXED  
46  
F B I  
31 APR 3 1947  
*Platt*

44-1644



March 15, 1947

MEMO

MEMORANDUM FOR THE DIRECTOR

RE: <sup>①</sup> ARABIAN AMERICAN OIL COMPANY  
California Arabian Standard Oil Company  
CONSPIRACY AGAINST THE GOVERNMENT

|                |  |
|----------------|--|
| Mr. Tolson     |  |
| Mr. E. A. Tamm |  |
| Mr. Clegg      |  |
| Mr. Coffey     |  |
| Mr. Glavin     |  |
| Mr. Ladd       |  |
| Mr. Nichols    |  |
| Mr. Rosen      |  |
| Mr. Tracy      |  |
| Mr. Carson     |  |
| Mr. Egan       |  |
| Mr. Gurnea     |  |
| Mr. Hendon     |  |
| Mr. Pennington |  |
| Mr. Quinn      |  |
| Mr. Nease      |  |
| Miss Gandy     |  |



It is suggested that you might desire to discuss this matter telephonically with Mr. Forrestal prior to ordering the investigation, inasmuch as information concerning it will undoubtedly reach him once the inquiries are started since it will probably involve people highly placed in the Navy Department.

Respectfully,

*[Handwritten Signature]*  
R. E. Ladd

*[Large handwritten initials]*

*For me will go right ahead.*

*H.*

*see index*

*1937-2*

# The Middle East's Oil Interests U.S.

## By Dan Poyner

Thank you for your interest in the Middle East.



As the story of the Middle East's oil interests unfolds, it is clear that the United States has a vital interest in the region. The oil fields of the Middle East are the richest in the world, and the United States is the largest consumer of oil in the world. The Middle East's oil interests are the key to the world's energy future.

The United States has a long history of involvement in the Middle East. In 1901, the United States discovered oil in California, and in 1908, it discovered oil in Texas. The United States then turned its attention to the Middle East, where it discovered oil in Persia in 1908. The United States then turned its attention to the Middle East, where it discovered oil in Persia in 1908.

At the time the Middle East's oil interests were being developed, the United States was the only major power in the world. The United States was the only major power in the world. The United States was the only major power in the world. The United States was the only major power in the world.

### Big Oil Controversies

The battle of some of the world's oil interests was fought in the Middle East. The battle of some of the world's oil interests was fought in the Middle East. The battle of some of the world's oil interests was fought in the Middle East. The battle of some of the world's oil interests was fought in the Middle East.

The Middle East's oil interests were the key to the world's energy future. The Middle East's oil interests were the key to the world's energy future. The Middle East's oil interests were the key to the world's energy future. The Middle East's oil interests were the key to the world's energy future.

The two world wars were fought in the Middle East. The two world wars were fought in the Middle East. The two world wars were fought in the Middle East. The two world wars were fought in the Middle East.

When Aramco asked a price of \$10 a barrel for oil, the United States refused. When Aramco asked a price of \$10 a barrel for oil, the United States refused. When Aramco asked a price of \$10 a barrel for oil, the United States refused. When Aramco asked a price of \$10 a barrel for oil, the United States refused.

The two world wars were fought in the Middle East. The two world wars were fought in the Middle East. The two world wars were fought in the Middle East. The two world wars were fought in the Middle East.

The Middle East's oil interests were the key to the world's energy future. The Middle East's oil interests were the key to the world's energy future. The Middle East's oil interests were the key to the world's energy future. The Middle East's oil interests were the key to the world's energy future.

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FEB 19 1957  
U.S. DEPARTMENT OF STATE  
WASHINGTON, D.C.

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FEB 19 1957  
U.S. DEPARTMENT OF STATE  
WASHINGTON, D.C.

52 (EO 12165) 191 FEB 19 1957

File 5-100

# Justice Pigeonholes Oil Scandal

By Edwin Pearson

The Senate vote, after a year of delay, has been postponed until next fall.

The Senate vote, after a year of delay, has been postponed until next fall.

The Senate vote, after a year of delay, has been postponed until next fall.

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bill to the United States under a proposal to the President filed April 14, 1941, at a price based on a bid of 40 cents per barrel.

When the United States received and because of its own demands

understanding them, price pro-

posed, the committee advised the

they had set at \$1.10 a barrel on a

later-in-1942-1943. The Navy

was found to buy the oil on cheap

prices.

The oil companies were under

ground, it set a legal obligation to

order to the same president.

after their previous proposals

for the sale of oil substance to the

President, "containing the basic

report.

The oil companies explained

the Government by stating that

prices for their products despite

the extensive grant to Saudi

Arabia at the committee's refusal

to produce and preserve the con-

tinued.

The Senate committee goes on

to tell how the oil companies

insisted they had studied their

regulations to the American govern-

ment, and demands "The Senate

committee charged that the oil

companies were not studied."

"I had been asked, 'What price

did you set for the oil?' and I

said, 'I set it at 40 cents per

barrel.' The committee then

said, 'You set it at 40 cents per

barrel?'

"The Senate committee will make

a few more hits.

"What's the

industry regulations were the

Senate Committee's critics at a

committee hearing with details

of the National Petroleum As-

sociation.

Several of the industry leaders

and their "What's the

committee's critics, they

said, 'You set it at 40 cents per

barrel?'

"The Senate committee will make

a few more hits.

"What's the

was elected both and fourth in

Illinois, a pet manufacturer of

Pennsylvania, Va., succeeded in

Prussia for his work, he finally

reminded.

"Chairman, it may be that we

are not directly in an oil-well

but somebody can make me believe

it."

"The man" he added, "you

are not being killed in Korea."

Gov. Governor of Georgia

Georgia's former Governor, J.

H. Thompson, is now making a

visit to the State Department.

He is expected to be in the

State Department in the next few

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AP

# NONPUBIC VERDICT FOR \$1,150,000 VOID

## Federal Court Says Aside Jury Award in Oil Suit as Against the Public Interest

Federal Judge Bernard A. Conroy set aside yesterday the \$1,150,000 verdict a jury had rendered on Feb. 15 in James A. McCreath vs. United Federal Trading Authority, a suit against the Federal Reserve Bank of New York. The suit was filed by the plaintiff, a former executive of the Federal Reserve Bank of New York, and the defendant, the Federal Reserve Bank of New York.

Mr. Conroy said that the company named in the suit had been formed in 1941 for the purpose of conducting an oil and gas business. The company was organized in 1941 and had a capital of \$10,000,000. The company was organized in 1941 and had a capital of \$10,000,000.

Mr. McCreath, a former executive of the company, was named as the plaintiff. He was named as the plaintiff. He was named as the plaintiff. He was named as the plaintiff.

Mr. Conroy said that the jury award was set aside because it was against the public interest. He said that the award was set aside because it was against the public interest.

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Conroy to public policy because it is against the public interest. He said that the award was set aside because it was against the public interest.

On the question of public policy, Judge Conroy said he could not find faulting that Mr. McCreath was chosen for the task he described and that he was not an expert but "in such a field where for his close relationship with the President, he was able to obtain information for the defendant and its associates in their favor of facts which the jury was unable to obtain."

One of the questions that the court asked was whether the award was against the public interest. The court said that the award was against the public interest.

Mr. McCreath had testified that he had had various other methods of getting help for the Federal Reserve Bank of New York. He said that he had had various other methods of getting help for the Federal Reserve Bank of New York.

Mr. Conroy said that the award was set aside because it was against the public interest. He said that the award was set aside because it was against the public interest.

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page \_\_\_\_\_ of the  
New York Times for

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FILED 27 1969  
FBI - NEW YORK

# Oil Overcharge At 30 Million

By Marshall Arisw  
Pet Reporter

The Navy was overcharged 30 million dollars on oil it needed to carry on the war, the Senate War Investigating Committee charged yesterday.

It blamed the Arabian American Oil Co. which charges a profit of 100 percent on the Navy's oil bill. "The Arabian American," it had charged the Navy 204 million dollars and "the benefits to the Nation's economy . . . have only just begun."

Committee and company, however, agreed on one point. That was that the Arabian oil fields probably would be valuable to the United States in case of war with Iraq.

Committee Chairman Senator E. A. Tamm, said yesterday that his committee had recommended an investigation by the Department of Justice to determine whether the Arabian overcharge is a violation of anti-trust laws. The Arabian American Oil Co. has been accused of being jointly owned by the Standard Oil Company of New York and California, the Texas Oil Co. and Jersey Corp.

The committee blamed Arabian's "excessive desire for enormous profits" together with Government "lack of responsibility" for the overcharging. It said Arabian American's Arabian agents agreed to sell fuel oil to the Navy at 40 cents a barrel, the committee said, on condition that the government at the Saudi Arabian King. It actually was sold at \$1.55 a barrel, while the U. S. was advancing \$1.25 to the King. The committee said 21 million of the amount was indirect and made through the British government and that 27 million more was "unavoidable."

Arise pointed out that the United States gave King Ibn Saud's government only 20 million dollars in direct aid during the war. The aid included 100,000 tons of wheat at 20 cents a bushel and 100,000 tons of flour at 20 cents a bushel. The committee said it would demand 20 million dollars to the King.

Navy Secretary John S. Wilson later issued a statement defending the Arabian American oil purchases. He asserted that the Navy bought the oil from the Arabian American because it would have had to pay for the United States oil in the United States. He said that the United States had to pay for the oil from Saudi Arabia.

... officers being made to the King of Saudi Arabia, to which nation the Navy has any other agency of the Government was authorized to commit itself."

Senator Langer (R., N. Dak.) applauded work of the committee on the Senate floor and praised Director for "a magnificent job." However, he said, had been treated "unfairly" by newspapers during the last year or so.

In its report, the committee criticized the oil companies for "a singular lack of good faith, an unscrupulous desire for enormous profits, while at the same time they constantly sought the cloak of United States protection and general assistance to preserve their vast empires."

- Mr. Tolson
- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Egan
- Mr. Gurnea
- Mr. Harbo
- Mr. Mohr
- Mr. Pennington
- Mr. Quinn Tamm
- Mr. Nease
- Miss Gandy

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# Who's Who in the To Help the Nation Committee Declares

Sanction House Bank  
Bank for Profits, Ltd  
ON U. S. Responsibility  
By an Associated Press

A House subcommittee today that the FBI was charged M. Hunt, the former director of the Federal Bureau of Investigation, with the

The committee also has been charged with the duty of investigating the activities of the House of Representatives.

The committee, headed by Representative Charles McNary, is expected to report to the House on the activities of the House of Representatives.

The report delivered to the committee by the House of Representatives is expected to be a major contribution to the understanding of the activities of the House of Representatives.

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- Mr. Tolson
- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Coffey
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn Tamm
- Mr. Nease
- Miss Gandy

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# Probers Put Oil Overcharge At 30 Million

By Marshall Andrews  
Post Reporter

The Navy was overcharged 30 million dollars on oil it needed to carry on the war, the Senate War Investigating Committee learned yesterday.

It blamed the Arabian American Oil Co., which promptly denied it had taken advantage of the Navy's critical position during the war, in fact, said the company, it had saved the Navy 30 1/2 million dollars and "the benefits to the Nation's economy . . . have only just begun."

Committee and company, however, agreed on one point. That was that the Arabian oil deals probably would be violations to the United States in case of war with Russia.

Committee Chairman Brewster R. Me. held a news conference yesterday that his committee had recommended an inquiry by the Department of Justice to determine whether the Arabian operation is a violation of the anti-trust laws. The Arabian American Oil Co., known as Aramco, is jointly owned by the Standard Oil Companies of New Jersey and California, the Texas Oil Co., and Standard Vacuum.

The committee blamed Aramco's "avaricious desire for enormous profits" together with Government "lack of responsibility" for the overcharging it said existed. Although Aramco agreed to sell fuel oil to the Navy at 40 cents a barrel, the committee said, on condition that the government add the Saudi Arabian King. It actually said this oil at \$1.65 a barrel while the U. S. was advancing 100,000,000 to the King. The committee said \$1 million of this amount was indirect and made through the British government and that 27 millions more was "recoverable."

Aramco retorted that the United States gave King Ibn Saud's government only 15 million dollars in direct loan-interest and "did not commence that aid until the worst of Saudi Arabia's war period was over." The company itself, it added, advanced nearly 15 million dollars to Ibn Saud.

Navy Secretary John L. Sullivan later issued a statement defending the Middle Eastern oil purchases. He asserted that the Navy bought the oil for 70 cents a barrel less than it would have had to pay to the United States or to the Dutch West Indies and that it is still buying from Arabian-Americans at \$1.65.

He denied that the Navy ever received an "unconditional" offer of oil from the company at 40 cents a barrel.

"The alleged offer of 40 cents a barrel," he said, "was expressly conditioned upon an advance of 20 million dollars being made to the King of Saudi Arabia, to which neither the Navy nor any other agency of the Government was authorized to commit itself."

Senator James H. Doolittle explained much of the committee on the Senate floor at a news conference for "a significant job." Brewster, he said, had been treated "unfairly" by newspapers during the last year or so.

In its report, the committee castigated the oil companies for "a singular lack of good faith, an avaricious desire for enormous profits, while at the same time they consistently sought the check of United States legislation and Government action to prevent their own overcharges."

- Mr. Tolson \_\_\_\_\_
- Mr. E. A. Tamm \_\_\_\_\_
- Mr. Clegg \_\_\_\_\_
- Mr. Glavin \_\_\_\_\_
- Mr. Ladd \_\_\_\_\_
- Mr. Nichols \_\_\_\_\_
- Mr. Rosen \_\_\_\_\_
- Mr. Tracy \_\_\_\_\_
- Mr. Egan \_\_\_\_\_
- Mr. Gurnea \_\_\_\_\_
- Mr. Harbo \_\_\_\_\_
- Mr. Mohr \_\_\_\_\_
- Mr. Pennington \_\_\_\_\_
- Mr. Quinn Tamm \_\_\_\_\_
- Mr. Nease \_\_\_\_\_
- Miss Gandy \_\_\_\_\_

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62 MAY 25 1948

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# Forrestal Defends Navy's Arabian Oil Deal

Secretary of Defense Forrestal defended the Navy's billion-barrel contract for Arabian oil at \$1.25 a barrel against a charge by Senator Brewster (R., Me.) that the price was based on "misrepresentative" data.

The former Navy chief, facing the Senate War Investigating Com-

mission under Senate investigating an investigation of the 1943 agreement was made with the Arabian-American Oil Co. at "the lowest price possible" and under great pressure to get fuel oil to the Pacific.

But he said that the former Navy chief denied Senator Brewster's charge that the price was based on "misrepresentative" data.

Arabian-American is a subsidiary of Standard Oil of California, the Texas Co. and Security-Vacuum.

Brewster contended the \$1.05 price was "excessive" and asserted the company earlier had offered the oil at half that figure if the United States would grant loan-lease aid to Saudi Arabia. Loan-lease was granted in 1942.

The Senator also demanded to know why the Navy, in attempting to justify the price, reported the company's royalty to King Ibn Saud of Arabia had gone up from 21 cents to 42 cents a barrel.

"It is now agreed that this statement is inaccurate—that the Navy acquired oil under a very material misrepresentation of facts," Brewster said. "Did this ever get to your attention?"

"Not until your committee's investigation," Forrestal replied. But he then produced the letter to the Justice Department as evidence that the Navy was following up the matter.

**1943 Proposal Cited**

Forrestal added that he had only a "general" awareness of the 1943 proposal made to the government by W. S. Anderson, president of the Arabian Oil Co. The plan would have given the Navy Arabian oil at cost "plus a nominal profit."

Brewster again steered the inquiry to Max W. Thornburg, who he charged had "been" served the interest of "the big oil companies" while receiving \$2000 a year as special assistant to Undersecretary of State Sumner Welles from 1941 to 1942. Thornburg also was getting \$20,000 annually from Standard Oil of California of which he was a director.

Dr. Herbert Ekin, former economic adviser to the State Department, testified today he did not know that Thornburg was still on Standard payroll.

Not until 1942, Ekin said, was he informed that "two members of my staff" sometimes were getting large salaries from oil companies.

"This stopped me and the inquiry was instituted," he said.

Mr. Tolson \_\_\_\_\_  
 Mr. E. A. Tamm \_\_\_\_\_  
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 Mr. Glavin \_\_\_\_\_  
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 Mr. Quinn Tamm \_\_\_\_\_  
 Mr. Nease \_\_\_\_\_  
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*Handwritten:* J. Schoneyfeld

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WASHINGTON POST

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# OIL AND EXPORTS THREATENED

**Brewster Attacks Thornbury  
of 'Representable Company'  
While Serving Government**

By SAMUEL A. FOWLER

WASHINGTON, Jan. 24.—Senator Owen Brewster of Maine, chairman of the Senate War Investigating Committee, today accused big oil companies of "planting or planting" their men in the State Department "to influence our foreign policy."

The State Department sponsored the rule framed by the individual, Max W. Thornbury, former special assistant to the Under-Secretary of State, as "most reprehensible conduct on the part of a government official."

Harold I. Ickes, Secretary of the Interior and Petroleum Administrator for War, testifying before the committee in its inquiry into possible oil companies as a means of aid to the Navy near the end of the war, described Mr. Thornbury as more interested in "protecting the big oil companies" than the interests of the Government.

Mr. Ickes also criticized vigorously the activities of the Army and Navy in dealing with the critical wartime petroleum situation, while by-passing his P.A.W. and called for the establishment by Congress of a committee to develop and coordinate an oil policy for the country.

### Committee Gives Out Letters

The committee gave public a number of letters allegedly involving Mr. Thornbury and others connected with the Standard Oil Company of California and the American Oil Company and their shipping to the Army-American Oil Company and its predecessor, Colson.

"Playing both sides of the street" was the way Mr. Ickes characterized a letter from James H. Ickes, former oil official connected with the companies, to H. D. Colson, president of Standard Oil of California, which contained the following:

"We are doing a very large business with the Japanese and therefore must take all strong pro-Japanese position as possible."

The letter said Colson must do otherwise because "we have a large investment in China, do a large business directly with China and previously selling in Japan and our main business is in the British Empire, which is having that connection with the Japanese."

"I am almost sure that I am justified in believing that the various newspaper interviews which I gave when visiting the various journals, plus the statements in all which I have made since the start of the war, all of which have been pretty generally carried by the press throughout the British Empire, would certainly make it clear that we, Colson, are pro-English from the standpoint of the war."

### Small Arabia Petroleum Report

In a letter on State Department machinery dated Jan. 23, 1945, which events were bringing the United States closer toward conflict, Mr. Thornbury wrote to Eugene H. Jones, then vice president of Standard of California, discussing the problems of Saudi Arabia. Writing of the possibility of an agricultural mission to the country headed by a certain individual, he stated:

"I don't see any good coming out of getting another man into our part of the picture. And, of course, his interests are not ours."

In another part of the letter written, according to Senator Brewster, while the State Department official was receiving \$5,000 from the Government and \$20,000 from the Standard company, Mr. Thornbury discussed American activity in Saudi Arabia, where Standard had oil interests and said:

"It may be that the best we can do is supply material and not money," the letter said. "There is a truck here, however, as Arabia has now been classified as not eligible for lend-lease."

While this was done to stop the money deal it also effectively blocked the supply deal, but I have no idea that this could be got around, if all that is involved is sending food, piece goods, auto parts, etc."

After sitting silently while the letters were read, Mr. Ickes was asked by the chairman if he had reason to doubt Mr. Thornbury's interest in the Government.

"You replied Mr. Ickes, 'I don't know, but my interest was to protect the interests of the big integrated companies.'"

Mr. Ickes appeared before the committee to answer questions about Ralph M. Davies, former P.A.W. assistant administrator, who also received a government salary \$15,000, while receiving \$25,000 from Standard of California. Mr. Ickes reported that the Standard Oil administration was not aware of Davies' activities and that he was not a member of the committee.

- Mr. Tolson \_\_\_\_\_
- Mr. E. A. Tamm \_\_\_\_\_
- Mr. Clegg \_\_\_\_\_
- Mr. Glavin \_\_\_\_\_
- Mr. Ladd \_\_\_\_\_
- Mr. Nichols \_\_\_\_\_
- Mr. Rosen \_\_\_\_\_
- Mr. Tracy \_\_\_\_\_
- Mr. Carson \_\_\_\_\_
- Mr. Egan \_\_\_\_\_
- Mr. Gurnea \_\_\_\_\_
- Mr. Harbo \_\_\_\_\_
- Mr. Hendon \_\_\_\_\_
- Mr. Jones \_\_\_\_\_
- Mr. Leonard \_\_\_\_\_
- Mr. Pennington \_\_\_\_\_
- Mr. Quinn Tamm \_\_\_\_\_
- Mr. Nease \_\_\_\_\_
- Miss Gandy \_\_\_\_\_

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This is a clipping from the  
Standard Oil Company  
dated 1-24-45 Page 1

This is a clipping from the Standard Oil Company dated 1-24-45 Page 1

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# Top U. S. Aides Linked to War Oil Dealings

## Brewster Accus Is 'Outside' Pay Received By FLOYD BARNES

Washington, Feb. 21 (AP)—The names of the top U. S. government officials linked to the oil dealings in the Middle East were disclosed today by a report in the New York Times. The report, which was based on a letter from the State Department, accused the top U. S. officials of receiving "outside" pay for their work in the Middle East. The report also accused the officials of receiving "outside" pay for their work in the Middle East.

The report, however, declared that the officials had received their salaries from the government. The report also declared that the officials had received their salaries from the government. The report also declared that the officials had received their salaries from the government.

Administrative for war, testified that he did not remember any such deal.

Mr. Jones, the president of the State Department, said that he did not remember any such deal. Mr. Jones, the president of the State Department, said that he did not remember any such deal.

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- Mr. Hoover
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Gurnea
- Mr. Harbo
- Mr. Hendon
- Mr. Jones
- Mr. Pennington
- Mr. Quinn Tamm
- Mr. Nease
- Miss Gandy

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# Justice Dept. Asked to Check Deals In Arab Oil

Chicago, Dec. 2 (A.P.)—The Senate War Investigating Committee yesterday asked Attorney General Tom C. Clark to look into the dealings of American oil companies in Arabian oil to see if any Justice Dept. action is needed.

In a move predicted in PD's week-end edition, Brewster expressed "some doubts" that the companies—which include three Standard Oil firms—would give "primary consideration to the best interests of the U. S. in developing Saudi Arabian concessions."

He said evidence in his Committee's investigations showed that the concerns could deliver oil from the Middle East to the U. S. East Coast at about one-half the current price.

This, he said, might materially ease the growing East Coast petroleum shortage "as well as contribute to consumers in the matter of price." Yet the evidence, he said, showed Arabian oil would be used in Europe and the Far East.

He noted that a combined 40 per cent in the Arabian American Oil Co., originally owned by Standard Oil Co. (Cal.) and the Texas Co. has been purchased by Standard Oil (N. J.) and ~~Standard Oil Co.~~

Brewster said that while the companies might feel they have a right to do what they please with their Arabian oil, the fact is that their concessions were preserved during the war largely as the result of FBI action in insistence to stabilize the situation and to support the "best" of Saudi Arabia.

- Mr. Tolson
- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Coffey
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Acers
- Mr. Carson
- Mr. Harbo
- Mr. Hendon
- Mr. Mumford
- Mr. Starks
- Mr. Quinn Tamm
- Mr. Nease
- Miss Gandy

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Medical Proceedings

To Check for Action

Very Respectfully

That the Board of Directors of the American Medical Association, at its meeting held at Chicago, Illinois, on the 15th day of December, 1914, adopted the following resolution:

Resolved, That the Board of Directors of the American Medical Association, at its meeting held at Chicago, Illinois, on the 15th day of December, 1914, adopted the following resolution:

1. That the Board of Directors of the American Medical Association, at its meeting held at Chicago, Illinois, on the 15th day of December, 1914, adopted the following resolution:

2. That the Board of Directors of the American Medical Association, at its meeting held at Chicago, Illinois, on the 15th day of December, 1914, adopted the following resolution:

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12. That the Board of Directors of the American Medical Association, at its meeting held at Chicago, Illinois, on the 15th day of December, 1914, adopted the following resolution:

Resolved, That the Board of Directors of the American Medical Association, at its meeting held at Chicago, Illinois, on the 15th day of December, 1914, adopted the following resolution:

*Chamber, C. Co.*

- Mr. Deane
- Mr. Coffey
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn Tamm
- Mr. Nease
- Miss Gandy

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# Forrestal Backs Arab Oil Probe, Says Brewster

By United Press

Defense Secretary Forrestal is supporting the Senate war investigating committee in its effort to sift charges that the Navy paid too much for Arabian oil in 1945, Chairman Brewster (R) of Maine, said yesterday.

Brewster told reporters he talked to Forrestal early in the committee's current series of hearings on Arabian oil. He said the former Navy secretary was interested in the possibility of the Navy's recovering some of the money it paid for Arabian oil if the committee decides there are grounds for such action.

### Recovery Possible

Brewster said that while he was not prepared to make a judgment yet, there might be an opportunity for recovery if the committee could prove "substantial misrepresentation."

The committee yesterday took a second "breather" from its public hearings on charges the Navy lost \$28,500,000 by buying Arabian oil from the Arabian-American Oil company for \$1.58 a barrel in 1945, when it could have gotten the same oil for 40 cents a barrel in 1941.

During the recent committee investigations will seek to learn if any Navy brass put undue pressure on subordinates to okay the \$1.58 figure, even though the subordinates thought it excessive. Two former Navy officers who approved the contract testified yesterday they felt the price "unfair" but said the company would not come down and their superiors insisted they sign because of "war necessity."

### Other Fields Opened

In addition to the possibility of recovering money for the Navy, Brewster said the sunset of hearings—the second in eight months—had opened up two other fields for inquiry:

1. The legality of collecting U. S. taxes from American-owned corporations operating in foreign countries. Testimony showed two other companies of America paid no taxes on a \$17,000,000 profit because they were chartered in Canada and their headquarters were in the United Kingdom.

- Mr. Tolson \_\_\_\_\_
- Mr. E. A. Tamm \_\_\_\_\_
- Mr. Clegg \_\_\_\_\_
- Mr. Glavin \_\_\_\_\_
- Mr. Ladd \_\_\_\_\_
- Mr. Nichols \_\_\_\_\_
- Mr. Rosen \_\_\_\_\_
- Mr. Tracy \_\_\_\_\_
- Mr. Carson \_\_\_\_\_
- Mr. Egan \_\_\_\_\_
- Mr. Gurnea \_\_\_\_\_
- Mr. Harbo \_\_\_\_\_
- Mr. Hendon \_\_\_\_\_
- Mr. Jones \_\_\_\_\_
- Mr. Leonard \_\_\_\_\_
- Mr. Pennington \_\_\_\_\_
- Mr. Quinn Tamm \_\_\_\_\_
- Mr. Nease \_\_\_\_\_
- Miss Gandy \_\_\_\_\_

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*no request rec'd for antitrust investigation*

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Case No. 100

Witnesses Day

2:00 PM  
In the Court of the  
City of New York

The first witness called is  
John J. [Name], who testifies  
that on [Date] he was present  
at the [Location] and saw  
[Name] [Action].

The second witness called is  
[Name], who testifies that  
on [Date] he was present  
at the [Location] and saw  
[Name] [Action].

The third witness called is  
[Name], who testifies that  
on [Date] he was present  
at the [Location] and saw  
[Name] [Action].

The fourth witness called is  
[Name], who testifies that  
on [Date] he was present  
at the [Location] and saw  
[Name] [Action].

The fifth witness called is  
[Name], who testifies that  
on [Date] he was present  
at the [Location] and saw  
[Name] [Action].

The sixth witness called is  
[Name], who testifies that  
on [Date] he was present  
at the [Location] and saw  
[Name] [Action].

The seventh witness called is  
[Name], who testifies that  
on [Date] he was present  
at the [Location] and saw  
[Name] [Action].

The eighth witness called is  
[Name], who testifies that  
on [Date] he was present  
at the [Location] and saw  
[Name] [Action].

Case No. 100

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at the [Location] and saw  
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- Mr. Tolson \_\_\_\_\_
  - Mr. E. A. Tamm \_\_\_\_\_
  - Mr. Clegg \_\_\_\_\_
  - Mr. Glavin \_\_\_\_\_
  - Mr. Ladd \_\_\_\_\_
  - Mr. Nichols \_\_\_\_\_
  - Mr. Rosen \_\_\_\_\_
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  - Mr. Hendon \_\_\_\_\_
  - Mr. Jones \_\_\_\_\_
  - Mr. Leonard \_\_\_\_\_
  - Mr. Pennington \_\_\_\_\_
  - Mr. Quinn Tamm \_\_\_\_\_
  - Mr. Nease \_\_\_\_\_
  - Miss Gandy \_\_\_\_\_
- W. J. [Name]*

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Date for a clipping from the

*[Handwritten signature]*



- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Gurnea
- Mr. Harbo
- Mr. Hendon
- Mr. Jones
- Mr. Leonard
- Mr. Pennington
- Mr. Quinn Tamm
- Mr. Nease
- Miss Gandy

*W*

**King Ibn Saud's  
Loyalties on Oil  
Set at \$ Millions**

By the Associated Press  
Chairman Brewster D. Hoyt of the Senate War Investigating Committee said yesterday King Ibn Saud and his heirs will receive "about five billion dollars" in royalties from American oil companies.

At the same time Brewster said Senator James D. Eastland, a member of the investigating group, told reporters in separate interviews they are confident the committee will receive all papers and documents from the files of the late President Roosevelt dealing with the Arabian oil transactions now under investigation.

Paul O'Connor, one of the executors of the Roosevelt estate, and other custodians of the voluminous Roosevelt papers at Hyde Park, N. Y., have agreed to disclose the oil documents at a special fair edition of the newspaper.

G. I. R. 9

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81 MAY 10 1947

Arabian American Oil Co.

SONY 1200

*F. H. G.*

This is a clipping from the  
Washington Post





# Revised and Refused by Truman

## GOP Investigator's Study Law Books To Determine ON Deal-Subpoena Rights

Investigator's study of the contents of the law books has led to the discovery of the fact that they can subpoena any page of any book in the President's library, and that they can subpoena any page of any book in the President's library, and that they can subpoena any page of any book in the President's library.

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- Mr. E. A. Tamm \_\_\_\_\_
- Mr. Clegg \_\_\_\_\_
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- Mr. Harbo \_\_\_\_\_
- Mr. Hendon \_\_\_\_\_
- Mr. Jones \_\_\_\_\_
- Mr. Leonard \_\_\_\_\_
- Mr. Pennington \_\_\_\_\_
- Mr. Quinn Tamm \_\_\_\_\_
- Mr. Nease \_\_\_\_\_

*W. Gandy*  
*[Signature]*

*[Handwritten initials]*

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 81 MAY 9 1947

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# Four Other U. S. Departments Enter Inquiry on Naval Oil

By The Associated Press

The Senate War Investigating Committee has indicated that the Navy paid 25 cents a gallon for the Navy's reserve fuel oil in 1941, when the price of fuel jumped off the scale. The committee's report, which is being prepared by the Senate Naval Affairs Committee, says that the Navy's purchase of fuel oil in 1941 was at a price of 25 cents a gallon, while the market price at that time was 15 cents a gallon.

Commerce Dept. Secretary A. C. Howland, U. S. Shipping Commission Chairman, and U. S. Coast Guard Chief of Staff, Mr. W. W. Weaver, also are being investigated.

The Navy's claim that it had no other choice but to purchase fuel oil at the price of 25 cents a gallon, because of the shortage of fuel oil, is being questioned. The committee says that the Navy had a large stockpile of fuel oil in 1941, and that it could have purchased fuel oil at a lower price if it had so desired.

Senator and the Landing Department's investigation of the purchase of fuel oil by the Navy in 1941 is being conducted by the War Investigating Committee. The committee is also investigating the purchase of fuel oil by the Army in 1941.

The committee is also investigating the purchase of fuel oil by the Navy in 1941. The committee is also investigating the purchase of fuel oil by the Army in 1941.

The committee is also investigating the purchase of fuel oil by the Navy in 1941. The committee is also investigating the purchase of fuel oil by the Army in 1941.

- Mr. Tolson \_\_\_\_\_
- Mr. E. A. Tamm \_\_\_\_\_
- Mr. Clegg \_\_\_\_\_
- Mr. Glavin \_\_\_\_\_
- Mr. Ladd \_\_\_\_\_
- Mr. Nichols \_\_\_\_\_
- Mr. Rosen \_\_\_\_\_
- Mr. Tracy \_\_\_\_\_
- Mr. Carson \_\_\_\_\_
- Mr. Egan \_\_\_\_\_
- Mr. Gurnea \_\_\_\_\_
- Mr. Harbo \_\_\_\_\_
- Mr. Hendon \_\_\_\_\_
- Mr. Jones \_\_\_\_\_
- Mr. Leonard \_\_\_\_\_
- Mr. Pennington \_\_\_\_\_
- Mr. Quinn Tamm \_\_\_\_\_
- Mr. Nease \_\_\_\_\_

*W. W. Weaver*

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47 MAR 5 1947

*W. W. Weaver*

*Division American Oil Co.*

*W. W. Weaver*

Type in a separate form the  
Name of the person who  
delivered the report

*Special American Oil Company et al*

# 4 More Departments Face Senate Oil Quiz

Washington, D. C. April 27 (U.S. The Senate war investigating committee has extended its inquiry into the Navy's wartime purchases of Saudi Arabian oil to four other executive departments, it was revealed today.

Chairman Owen Brewster (Maine), said that the State, War, Interior and Justice Departments are now fighting in the investigation of charges that the Navy paid \$30,000,000 too much for Middle East oil which it contracted to buy in 1945.

### Wheeler Gets Help

He said that four and perhaps five committee aids and investigators had been assigned to help former Senator Burton K. Wheeler (D-Mont.), special counsel for the inquiry.

"We are branching out now and getting a more complete picture of the oil situation," Brewster said. "We hear that the oil companies involved have retained Charles F. Hughes, son of the former Chief Justice, to represent them. We, of course, want to get the oil com-

panies' side of this story as well as the Government's."

The inquiry is based on charges by oil man James A. Moffett that the Navy paid \$30,000,000 more for its oil in 1945 than the price he had quoted them in 1941. Both deals, he said, were concerned with oil produced by the Arabian-American Oil Co., a company owned by Standard Oil of New York and Standard Oil of California.

### Bought Oil in 1941

To the Navy's claim that Moffett's oil was inferior to the grade it purchased four years later, the committee countered with evidence that the Navy had purchased oil in 1941 from the same Saudi Arabian area.

Brewster said the Interior Department was involved through its Petroleum Administration. The War Department enters the picture because the Army uses some of the oil purchased by its sister service. The State department was involved in some of the oil negotiations, and the Justice Department is concerned with legal aspects of the deal.

*Oil*

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31 MAY 8 1947

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*British American Oil Co et al*

Investigation - 1945 - 1947 - 1948  
Re: British American Oil Co. et al

# OIL HEAD DENTIES DEFRAUDING NAVY

## Rodgers Disputes the Charge of Moffet of Shady Deal by Arabian American

### LAWYER TO GET FULL FACTS

## Charles E. Hughes Jr. Retained to Help Present Case to Senate Committee

V. S. H. Rodgers, chairman of the Texas Company, told stockholders yesterday at their annual meeting here that charges made by James A. Moffet that the Arabian American Oil Company and the California-Texas Company, Ltd., had defrauded the United States Navy in the sale of fuel oil and other products were "absolutely false." The Arabian American company, owner of the oil concession for Saudi Arabia, and the California-Texas Company are owned jointly by the Standard Oil Company of California and the Texas Company.

In a statement before the Senate Investigating Committee on March 16, Mr. Moffet, former Housing Administrator and also former chairman of the two Middle East oil companies, had stated that the Navy had paid about double the price for oil products purchased from Arabian American and California-Texas than had been sought in a contract offered to the Navy earlier.

Mr. Moffet also said that the British Navy obtained oil products from the Anglo-Iranian Oil Company, Ltd., much cheaper than these two companies had charged the United States Navy.

#### "Full Facts" Are Promised

Declaring that "the Navy never has been overcharged by either of these companies," Mr. Rodgers said that Charles Evans Hughes Jr. had been retained to assist in presenting "the full facts" in the case before the Senate committee.

Mr. Rodgers revealed that Mr. Moffet had proposed to the Standard Oil of Saudi Arabia, Ltd., that the two companies be sold to the Navy. Mr. Rodgers said that the Standard Oil of Saudi Arabia, Ltd., had refused to do so. Mr. Moffet and his associates, Mr. Moffet further proposed, Mr. Rodgers said, that Arabian American be paid for its concession and properties at their book value, which is much below their actual value.

Concerning the bank loan of \$102,000,000 recently negotiated by Arabian American, Mr. Rodgers said that 75 per cent by the Standard Oil Company (New Jersey) and 25 per cent by the Jersey-Vacuum Oil Company, Inc., Mr. Rodgers said that \$76,500,000 was used to reimburse Standard of California and the Texas Company for loans and advances they had made to Arabian American. The balance of \$25,500,000, he added, was paid to the parent companies as a dividend.

#### Repayment Plan Agreed to

"If within four years Jersey and Socony receive an unfavorable decision in the pending law suit instituted by the Compagnie Francaise des Petroles relating to the so-called Red Line agreement," Mr. Rodgers continued, "Arabian American will repay the loan out of its own funds. If Jersey and Socony settle or win the suit, they will purchase 30 per cent and 10 per cent, respectively, of Arabian American stock and pay Arabian American \$102,000,000, which will be used to retire the loan."

The net earnings of the Texas Company and its subsidiaries for the first quarter of this year were estimated by Mr. Rodgers at \$18,563,448 after charges, taxes and reserves, or \$1.65 a capital share. These exclude a dividend of approximately \$11,000,000 received from a 50 per cent owned company operating in the Middle East. The earnings for the 1947 period compare with \$11,314,961, or \$1 a share, in the first three months of 1946.

#### OTHER COMPANY MEETINGS

American Brake Shoes  
Stockholders of the American Brake Shoe Company at their annual meeting.

Continued on Page 20, Column 2

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*Arabian American Oil Co.*

**Standard Oil of California  
Standard Oil of New Jersey  
Standard Oil Company of Indiana  
Standard Oil Company of Kentucky  
Standard Oil Company of Ohio  
Standard Oil Company of Texas  
Standard Oil Company of Wisconsin  
Standard Oil Company of Missouri  
Standard Oil Company of Louisiana  
Standard Oil Company of Oklahoma  
Standard Oil Company of Arkansas  
Standard Oil Company of Mississippi  
Standard Oil Company of Alabama  
Standard Oil Company of Georgia  
Standard Oil Company of Florida  
Standard Oil Company of South Carolina  
Standard Oil Company of North Carolina  
Standard Oil Company of Virginia  
Standard Oil Company of West Virginia  
Standard Oil Company of Maryland  
Standard Oil Company of Delaware  
Standard Oil Company of Pennsylvania  
Standard Oil Company of New York  
Standard Oil Company of New Jersey  
Standard Oil Company of Connecticut  
Standard Oil Company of Rhode Island  
Standard Oil Company of Massachusetts  
Standard Oil Company of Vermont  
Standard Oil Company of New Hampshire  
Standard Oil Company of Maine  
Standard Oil Company of New Brunswick  
Standard Oil Company of Nova Scotia  
Standard Oil Company of Prince Edward Island  
Standard Oil Company of Newfoundland**  
**Fraud Against the Government**

51 MAY 17 1947

CLIPPING FROM THE  
N. Y. *Times*  
DATED APR 23 1947  
FORWARDED BY N. Y. DIVISION



# Wheeler Expected to Expose Startling Facts in Oil Inquiry

## Said to Have Consulted President Before Tackling Middle East Fraud Charges

By James Fran  
 Capitol observers looked forward today to sensational developments in the Senate investigation of the Government's Middle East oil deals now that Senator Wheeler has been hired as special investigator.

They said the Montana Democrat, who gained national prominence by the way he handled the Teapot Dome oil scandal 25 years ago, would not associate himself with "a chicken feed investigation," and pointed out that he conferred with President Truman on taking on the job.

### Wheeler Charged

Wheeler was hired by Chairman Brewster, of Maine, of the Senate War Investigating Committee, to start its inquiry into charges that companies selling Middle East oil "deliberately defrauded the U. S. Government."

Wheeler's exact status was not clear. He said he had been asked to "take over the inquiry," but Brewster said he had been retained "as a special investigator to study the case and make a report."

Committee Counsel George Menden, who has carried the ball up to now, said he understood Wheeler would have "a sort of consultant job." He was told, he said, that the Montanan would "review the material the committee has collected and report back on what future action should be taken."

On the very day of his appointment...

When Mr. Wheeler was told by Oil Man James A. Moffett that:

1. The Arabian American Oil Co., owned by the Arabian Oil Co. of California and the Arabian Oil Co., marketed a \$27,000,000 investment into holding worth \$10,000,000 to \$12,000,000 in a deal that was financed by American taxpayers.

2. That the U. S. Navy was forced to pay \$20,275,000 for Middle East oil that it could have bought at one time for \$20,419,000. The navy had to pay \$1.25 a barrel while the British got the same oil for 40 cents or less. The navy said the oil offered originally for \$20,419,000 was inferior. It also claimed it had paid excessive profits to the companies involved.

### Arab King Got Loan

3. The United States indirectly lent \$10,000,000 to King Abdul Aziz of Saudi Arabia, who sought a loan from the oil companies, by sending it first to the British who thereupon lent it to the king.

Until Wheeler reports, the committee will resume its investigation of the Inter-American Highway running from Mexico's southern border to the Panama Canal. The project was scheduled to cost \$20,000,000, but the United States has already paid \$10,000,000 into the project and will be required to finish the job.

- Mr. Tolson \_\_\_\_\_
- Mr. E. A. Tamm \_\_\_\_\_
- Mr. Clegg \_\_\_\_\_
- Mr. Coffey \_\_\_\_\_
- Mr. Glavin \_\_\_\_\_
- Mr. Ladd \_\_\_\_\_
- Mr. Nichols \_\_\_\_\_
- Mr. Rosen \_\_\_\_\_
- Mr. Tracy \_\_\_\_\_
- Mr. Carson \_\_\_\_\_
- Mr. Egan \_\_\_\_\_
- Mr. Hendon \_\_\_\_\_
- Mr. Pennington \_\_\_\_\_
- Mr. Quinn Tamm \_\_\_\_\_
- Mr. Nease \_\_\_\_\_
- Miss Gandy \_\_\_\_\_

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 80 APR 8 1947

MAR 31 1947

32 APR 12 1947

# Speaks to Fly In Oil Probe

By United Press

WASHINGTON, Mar. 31.—Capital observers anticipate sensational developments in the Senate investigation of the Government's Middle East oil deals now that former Sen. Burton Wheeler has been named special investigator.

The Montana Democrat, who gained national prominence by the way he handled the Teapot Dome oil scandal 25 years ago, was hired by Chairman Owen Brewster (R., Minn.) of the Senate War Investigating Committee for its inquiry into charges that companies selling Middle East oil "deliberately defrauded the U. S. Government."

Wheeler's exact status was not clear. He said he had been asked to "take over the inquiry," but Brewster said he had been retained "as a special assistant" to study the case and make a report.

In the one day of hearings held thus far, the committee was told by oil man James A. Moffett that:

• The Arabian American Co. made a deal with Standard Oil of Cal. and the Texas Co. whereby a \$27,000,000 investment into holdings worth \$5,000,000,000 to \$10,000,000,000 in a deal financed by American taxpayers.

• The U. S. Navy was forced to pay \$59,579,000 for Middle East oil that it could have bought at one time for \$26,419,000. The Navy had to pay \$1.05 a barrel while the British got the same oil for 40 cents a barrel.

• The U. S. A. had loaned \$10,000,000 to King Faisal of Saudi Arabia, who had sought a loan from the oil companies, by lending it first to the British who then loaned it to the King.

- Mr. Tolson \_\_\_\_\_
- Mr. E. A. Tamm \_\_\_\_\_
- Mr. Clegg \_\_\_\_\_
- Mr. Coffey \_\_\_\_\_
- Mr. Glavin \_\_\_\_\_
- Mr. Ladd \_\_\_\_\_
- Mr. Nichols \_\_\_\_\_
- Mr. Rosen \_\_\_\_\_
- Mr. Tracy \_\_\_\_\_
- Mr. Acers \_\_\_\_\_
- Mr. Carson \_\_\_\_\_
- Mr. Harbo \_\_\_\_\_
- Mr. Hendon \_\_\_\_\_
- Mr. Mumford \_\_\_\_\_
- Mr. Starke \_\_\_\_\_
- Mr. Quinn Tamm \_\_\_\_\_
- Mr. Nease \_\_\_\_\_
- Miss Gandy \_\_\_\_\_

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MAR 31 1947





**These Public Papers:**  
**Documents on Navy Oil Deal**  
**Locked in Roosevelt Library**  
**Spokesman Deny 57 Million Worth**  
**In Purchase of Fuel for Middle East**

By Edward Tamm

The navy denied last night that it worked \$57,000,000 of the taxpayers' money in buying Middle Eastern fuel oil, but said the records needed to prove its case are locked away in the late President's home.

The navy gave its side of the story in a statement of denials after a former spokesman admitted that the records were all wrong. They may amount up a total bargain of \$57 million in 1941, and later contracts a deal with the same company for more than two and one-half times the original price.

The witness, James C. ... said the Arabian-American Oil Company ...

would have made on the original offer.

Spokesman ... said ...

... the ...

- Mr. Tolson \_\_\_\_\_
- Mr. E. A. Tamm \_\_\_\_\_
- Mr. Clegg \_\_\_\_\_
- Mr. Glavin \_\_\_\_\_
- Mr. Ladd \_\_\_\_\_
- Mr. Nichols \_\_\_\_\_
- Mr. Rosen \_\_\_\_\_
- Mr. Tracy \_\_\_\_\_
- Mr. Carson \_\_\_\_\_
- Mr. Egan \_\_\_\_\_
- Mr. Gurnea \_\_\_\_\_
- Mr. Harbo \_\_\_\_\_
- Mr. Hendon \_\_\_\_\_
- Mr. Jones \_\_\_\_\_
- Mr. Ladd \_\_\_\_\_
- Mr. Quinn Tamm \_\_\_\_\_
- Mr. Nease \_\_\_\_\_
- Mr. ... \_\_\_\_\_

G. I. R. - 1

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46-1076-A

Please file in  
"Arabian American Oil Co.  
Proceedings re the Documents"

This is a duplicate copy

...and the oil  
...which, in  
...to the navy's  
...to buy  
... a barrel of oil.

**The Facts Further**

Senate committee members said they wanted to know more about the deal. The navy said the records were sent to the White House in 1944 and now are in the Hyde Park library.

A Presidential order will be required to make them available to the committee, and President Truman will be asked to issue it.

Chairman Brewster, of Maine, and other committee members got on the trail of the missing records when they opened hearings into U. S. Government dealings with American oil companies in Saudi Arabia.

Medfest, the day's star witness, asserted that American taxpayers paid the bill to establish private companies in the Middle East.

**Offered at 40 Cents**

He said the missing files would show that on April 12, 1941, he sent a letter and a memorandum to Mr. Roosevelt offering the Government Saudi oil at 40 cents a barrel.

Some four years later the Government concluded a deal with Arabian-Americans to provide oil at \$1.25 a barrel. The committee wants to find out why the higher price was agreed upon.

Medfest gave the committee copies of his letter and memorandum. The former referred to the plight of King Ibn Saud whose financial situation, it said, is desperate.

The memorandum emphasized the oil companies feared that King Ibn Saud was "extremely pro-ally" and added, "the king is a weak person" and "he has grave fears for the stability of his country."

Medfest testified that the profit on this deal would have been about \$11,000,000 but that under the 1944 agreement, profits may reach \$60,000,000.

**Letter to Library**

Senator Pepper (D.), of Florida, asked whether the purpose of the proposed deal was to get oil for the companies or money for King Ibn Saud.

"The sole purpose was that the king wanted \$1,000,000 a year and that it could be worked out to help him."

The story of the missing letters was told by Capt. Chester C. Wood, chief of the Navy Judge Advocate General, who traced them to the Department of State, to whose legal custody they have been placed.

Wood said he was informed on March 26, in a letter from Paul W. Roberts, assistant of the judge...

- Mr. Tolson \_\_\_\_\_
- Mr. E. A. Tamm \_\_\_\_\_
- Mr. Clegg \_\_\_\_\_
- Mr. Glavin \_\_\_\_\_
- Mr. Ladd \_\_\_\_\_
- Mr. Nichols \_\_\_\_\_
- Mr. Rosen \_\_\_\_\_
- Mr. Tracy \_\_\_\_\_
- Mr. Carson \_\_\_\_\_
- Mr. Egan \_\_\_\_\_
- Mr. Gurnea \_\_\_\_\_
- Mr. Harbo \_\_\_\_\_
- Mr. Hendon \_\_\_\_\_
- Mr. Jones \_\_\_\_\_
- Mr. Leonard \_\_\_\_\_
- Mr. Pennington \_\_\_\_\_
- Mr. Quinn Tamm \_\_\_\_\_
- Mr. Nease \_\_\_\_\_
- Miss Gandy \_\_\_\_\_

This is a clipping from the Washington Times Herald  
Date: 11-22-51 Page: 1

Mr. Tolson  
Mr. E. A. Tamm

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*Lyke*

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APR 8 1941

RECEIVED

THE REGISTRAR'S OFFICE  
DATE 3-11-41

ROAF

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FEDERAL BUREAU OF INVESTIGATION  
FOI/PA  
DELETED PAGE INFORMATION SHEET  
FOI/PA# 1464977-0

Total Deleted Page(s) = 9

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- Page 39 ~ b3;
- Page 40 ~ b3;
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- Page 98 ~ b3;
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# Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. Rosen

DATE: June 18, 1951

FROM : Mr. Pennington

SUBJECT: ARABIAN AMERICAN OIL COMPANY, formerly known as California Arabian Standard Oil Company. FRAUD AGAINST THE GOVERNMENT; WAR FRAUD CLAIMS; CIVIL SUIT

|                |  |
|----------------|--|
| Mr. Tolson     |  |
| Mr. E. A. Tamm |  |
| Mr. Clegg      |  |
| Mr. Glavin     |  |
| Mr. Ladd       |  |
| Mr. Nichols    |  |
| Mr. Rosen      |  |
| Mr. Tracy      |  |
| Mr. Harbo      |  |
| Mr. Mohr       |  |
| Mr. Winterrowd |  |
| Tele. Room     |  |
| Mr. Holloman   |  |
| Miss Gandy     |  |

Under date of June 16, 1951, Drew Pearson, in his column, has stated that the Justice Department has been stalling in bringing this case to conclusion. This will inform that the Bureau has completed all investigation and our file is closed.

BACKGROUND:

In March, 1947, at the request of the Criminal Division, the Bureau undertook a complete and thorough investigation of the complaint received by the Department, alleging possible fraudulent activities on the part of unknown Navy personnel, in connection with the awarding of a Navy contract in 1945 for the purchase of oil from subject company. It was alleged that subject company offered to sell petroleum products to the U. S. Government in 1941 at a stipulated price which was not accepted. In 1945 the Navy entered into a contract for the purchase of oil from the company at prices approximately 100% higher than those offered in 1941. It was further alleged that certain high Navy officers sponsored the contract at higher prices in an irregular manner.

RESULTS OF INVESTIGATION:

Our investigation revealed that the Navy declined to purchase oil offered in 1941 because (1) high sulphur content, (2) overproduction of oil in U. S., (3) Mediterranean sea lanes were closed to American shipping. Justification for purchase of oil from Arabian American in 1945 for the reason that (1) sulphur content decreased, (2) change of world conditions created heavy demand for oil in Western Pacific area, (3) Mediterranean sea lanes were opened. It was further disclosed that oil purchased for use of Navy west of Pearl Harbor could be obtained from subject company at a cost of approximately 42% lower than from American sources. Interviews with Navy personnel and personnel of Arabian American Oil responsible for negotiating the contract failed to disclose any irregular activities.

Immediately upon completing the Criminal investigation in October, 1947, the Claims Division of the Department requested an investigation by the Bureau to determine whether civil liability

46-13326-114  
JUN 17 1951

RECORDED - 37 JUN 27 1951

Memorandum to Mr. Rosen

existed on the part of the oil companies concerned and to establish the basis of a civil suit should their liability be established.

STATUS OF INVESTIGATION:

After numerous inquiries to the Criminal and Claims Divisions of the Department as to whether additional investigation was necessary, the Bureau, on September 16, 1949, and December 14, 1949, respectively, notified the Criminal and Claims Divisions that in the absence of specific requests the Bureau considered the cases closed.

There has been no delay by the Bureau in completing our responsibilities in this investigation.



# FEDERAL BUREAU OF INVESTIGATION

Form No. 1  
THIS CASE ORIGINATED AT **WASHINGTON, D. C.**

FILE NO. **45-262 ML**

|  |  |  |   |
|--|--|--|---|
| <b>REPORT MADE AT</b><br><b>NEW HAVEN, CONN.</b>   | <b>DATE COVER PERIOD</b><br><b>1/19/49</b> | <b>PERIOD FOR WHICH MADE</b><br><b>1/18, 19/49</b> | <b>REPORT MADE BY</b><br><b>JOHN C. CARR</b>                  |
| <b>TITLE</b><br><b>UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS</b> |  |  | <b>CHARACTER OF CASE</b><br><b>WAR FRAUD CLAIM CIVIL SUIT</b> |

**SYNOPSIS OF FACTS:**

**FRANK REINHOLD**, now employed by Connecticut Light and Power Company at Waterbury, Conn., advises he knows nothing concerning any irregularities or improper actions in connection with Navy contracts for Saudi Arabian Petroleum Products.

RUC

**REFERENCE:** Report of Special Agent (A) **J. HERBARD COOK** dated 1/13/49 at Washington, D. C.;  
Report of Special Agent **WILLIAM A. HALPIN** (A) dated 2/24/48 at New York City.

**DETAILS: AT WATERBURY, CONNECTICUT**

Mr. **FRANK REINHOLD** was interviewed at his present place of employment, the Connecticut Light and Power Company, 250 Freight Street, Waterbury, Connecticut. He stated that in 1944 and 1945 he was serving as a lieutenant, USNR, in the Contract Clearance Division of the Materials Section at the Navy Department, Washington, D. C. He described this section as a part of the office of the Secretary of the Navy.

He states that his immediate Naval superior was Admiral **ROBINSON** and the civilian superior, one **C. W. MC VICAR**. The duties of the section to which Mr. **REINHOLD** was assigned were to review large procurement contracts in the sum of \$200,000. and upwards and especially to review contracts for oils and gasolines as well as

*[Handwritten initials/signature]*

**SECRET**

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| <b>APPROVED AND FORWARDED:</b><br><i>[Signature]</i>             | <b>DO NOT WRITE IN THESE SPACES</b>                      |
| <b>SPECIAL AGENT IN CHARGE</b>                                   | <b>F B I</b><br><b>45-13326-94</b><br><b>JAN 24 1949</b> |
| <p>① Bureau<br/>② Washington Field (45-1000)<br/>③ New Haven</p> | <b>7-5</b>   |

any materials for ship propulsion, radio and radar.

Concerning ALLAN A. MAC KRILLE, he met MAC KRILLE casually on one or two occasions and on some few occasions was in telephonic contact with him. He states that prior to the time of consideration of Navy contracts concerning Saudi Arabian oil, that he had no discussion with MAC KRILLE concerning such.

The section in which Mr. REINHOLD was assigned did not contact the supplier of any raw materials nor did it concern itself with negotiations. The specific job of his section was to review contracts after the possible letting of same had been discussed and to determine if the contract was proper for the government to make in all respects. Mr. REINHOLD states that as the varying contracts for Saudi Arabian oil got to his section there was substantial discussion in his section concerning them because of the price requested for the oil. He stated that it was extremely difficult to determine whether the proposed contracts were or were not proper inasmuch as Saudi Arabia represented a new factor in negotiations and that previous prices and other means of comparison were practically useless.

Mr. REINHOLD believes that a favorable determination concerning Saudi Arabian contracts was finally made because it appeared that there was imperative and immediate necessity for such supplies of oil and that consequently price would, of necessity, have to be the secondary consideration to the military necessity.

Mr. REINHOLD does not know any individual named DEWEAN of the Arabian American Oil Company. He does not know of any instance in connection with these contracts where improper pressure was put upon the Navy Department or individuals working for the Navy Department or Navy personnel in an attempt to secure such contracts nor does he know that Saudi Arabian oil might have been previously offered to the Navy Department before the contracts in question were let.

He stated that Mr. EDWARD LAAPPE of the War Production Board also discussed the matter with Mr. REINHOLD's section because he was apparently more familiar with the situation. He stated that it was his feeling that approval had been granted to the Saudi Arabian contracts because of the fact that military necessity demanded the same, although the general feeling was that the price of the oil was too high. Mr. REINHOLD stated that due to the time lapse that he was unable to discuss actions in connection with any particular Saudi Arabian contract, but that his statement concerning a lack of knowledge concerning irregularities of any type is correct concerning any contract of such nature.

REFERRED UPON COMPLETION TO THE OFFICE OF ORIGIN

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1  
THIS CASE ORIGINATED AT **WASHINGTON FIELD**

FILE NO. **46-1908**

|   |                                  |  |  |
|---|----------------------------------|--|--|
| <b>REPORT MADE AT</b><br>WASHINGTON, D. C.  | <b>DATE WHEN MADE</b><br>1-13-49 | <b>PERIOD FOR WHICH MADE</b><br>1/7, 10, 11, 12/49 | <b>REPORT MADE BY</b><br>J. BEWARD COOK (A)            |
| <b>TITLE</b><br>UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS |                                  |  | <b>CHARACTER OF CASE</b><br>WAR FRAUD CLAIM CIVIL SUIT |

**SYNOPSIS OF FACTS:**

**FRANK MILTON REINHOLD, Sr.** served as a Lieutenant, USNR, May 12, 1944, to November 8, 1945, and was assigned to duties in the Office of the Chief of Procurement and Materials, Navy Department, Washington, D. C. Presently reported residing Water-town, Connecticut.

- P -

**REFERENCE:**

Report of Special Agent (A) J. BEWARD COOK, dated August 9, 1948.  
Bureau File No. 46-13326.

**DETAILS:**

AT WASHINGTON, D. C.

Mr. DONALD W. WORLEY, Special Employee attached to the Washington Field Office, obtained the following pertinent information from the Navy Personnel records concerning **FRANK MILTON REINHOLD, Sr., USNR**

Number 2790.

This file reflected that **FRANK MILTON REINHOLD** was born May 18, 1896, at Glendale, Delaware County, Pennsylvania. At the time of his enlistment he was residing at 250 Litchfield Road, Watertown, Connecticut. From 1923 to 1943 REINHOLD was employed by the Connecticut Light and Power Company, Waterbury, Connecticut, and his duties consisted of acting as Assistant to the Superintendent and General Storekeeper in the Department of Chief Clerk.

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| <p>SEARCHED</p> <p>INDEXED</p> <p>SERIALIZED</p> <p>FILED</p> | <p>46-13326-83</p> |
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WFO 46-1908

This file reflected that REINHOLD served in the United States Navy as a Seaman Second Class from 1917 to 1918. REINHOLD was appointed a Lieutenant on February 3, 1944, and reported for active duty in Washington, D. C. on May 12, 1944, at which time he was assigned to the Office of the Chief of Procurement and Materials, U. S. Navy Department, Washington, D. C. On November 8, 1945, he was released from active duty. In 1947 REINHOLD's address was still 250 Litchfield Road, Watertown, Connecticut. At the time of his release in 1945 REINHOLD stated he was going to return to his civilian position with the Connecticut Light and Power Company.

ENCLOSURES TO NEW HAVEN OFFICE:

Report of Special Agent (A) WILLIAM A. HALPIN,  
dated February 24, 1948, at New York.

Report of Special Agent (A) J. BERNARD COOK,  
dated March 29, 1948, at Washington, D. C.

Report of Special Agent (A) J. BERNARD COOK,  
dated May 26, 1948, at Washington, D. C.

WFO 46-1908

LEAD

THE NEW HAVEN OFFICE

At Watertown, Connecticut

Will interview FRANK M. REINHOLD, 250 Litchfield Road, Watertown, Connecticut, who served as a Lieutenant in the United States Navy from 1944 to 1945, and ascertain from him complete information as to any discussions had by him with Commander A. A. MacKILLIE, formerly in charge of the Purchase Section, Field Division, Bureau of Supplies and Accounts, United States Navy, or with any other individual concerning the SAUDI ARABIAN oil prices prior to the consumation of Contract Number N 5 SI-11-10985 with the Arabian-American Oil Company dated July 8, 1945.

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1

THIS CASE ORIGINATED AT

WASHINGTON FIELD

DE

FILE NO.

46-1005

|   |                                   |  |   |
|---|-----------------------------------|--|---|
| <b>REPORT MADE AT</b><br>DETROIT, MICHIGAN  | <b>DATE WHEN MADE</b><br>10-22-48 | <b>PERIOD FOR WHICH MADE</b><br>10/18/48 | <b>REPORT MADE BY</b><br>JOHN L. MARTIN (A)               |
| <b>TITLE</b><br>UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS |                                   |  | <b>CHARACTER OF CASE</b><br>WAR FRAUD CLAIM<br>CIVIL SUIT |

**SYNOPSIS OF FACTS:**

C. WARNER McVICAR was Procurement Specialist, Contract Clearance Division, Executive Office of Secretary of Navy from July 2, 1942 to July 5, 1945. Duties were to review and approve requests for contracts from all Navy Bureaus in amounts over \$200,000.00. McVICAR has no personal recollection of any details in clearance of requests for contracts with Arface or Cal-Tex. Comments, notes, and analysis sheets of Clearance Division attached to clearance papers located in files of Material Division, Executive Office of Secretary of Navy.

- MIC -

**REFERENCE:** (46-13326) Letter from Washington Field to Director and Detroit dated October 6, 1948.

**DETAILS:** C. WARNER McVICAR, 22243 Morley Avenue, Dearborn, Michigan, advised that he entered on duty as a civilian in the Contract Clearance Division, Executive Office of the Secretary of Navy (EONS), Office of Procurement and Material, Navy Department, Washington, D.C. on July 2, 1942. He was made Chief of the Division in November, 1943, and terminated his services in the Division July 5, 1945.

McVICAR was in charge of men experienced in purchasing, who received and analyzed requests for contracts from all Navy Bureaus, in amounts over \$200,000.00. The contract requests were considered cleared after being

|  |                              |
|--|------------------------------|
| APPROVED AND FORWARDED: <i>J. A. [Signature]</i>   | DO NOT WRITE IN THESE SPACES |
| REC.   | 46-13326-92 RECORDED - 128   |
| COPIES OF THIS REPORT<br>3 - Bureau<br>3 - Washington Field<br>2 - Detroit<br><i>cc Mr. Sullivan</i><br>10-29-48 | OCT 28 1948                  |

(DE 44-1005)

approved by McVICAR, who then sent the clearances to the Deputy Chief of Office of Procurement and Material (now Material Division, Executive Office of Secretary of Navy) for final signature before issuance of the contract by the Bureau involved.

McVICAR stated that by the time the requests had reached his division price negotiations had been conducted by the submitting Bureau, and the submitting Bureau had also recommended to whom the contract be awarded. In other words, the principals to the proposed contract had been selected prior to the time McVICAR's staff received the request for analysis. McVICAR stated that only in very few cases were any objections raised by his Division which resulted in changing the selection of the contractor.

McVICAR stated he recalled clearing requests from the Bureau of Supplies and Accounts for contracts for Persian Gulf area oil, but could not recall the oil company or companies involved. It is noted that McVICAR's period of employment would cover the dates of contracts NISI-6156, NISI-31215, NISI-34155, NISI-9504, all with the California-Texas Oil Company, and possibly NISI-10985, dated July 9, 1945, with the Arabian-American Oil Company.

McVICAR said the Contract Clearance Division tried to meet a forty-eight hour deadline on all clearances, that he is certain that these particular proposed oil contracts were approved without meetings or conferences between the Contract Clearance Division and the principals, but can not recall if any of the requests were sent back to the Bureau of Supplies and Accounts for revision before final approval. McVICAR said that if any objections were raised by his Division concerning a particular request, such objections would be included in the comments, notes, and analysis sheets attached to the clearance papers in the files of the Executive Office of the Secretary of the Navy. Such comments, notes, and analysis sheets are not available to or among the records of the Bureau of Supplies and Accounts.

The Contract Clearance Division worked closely with WFB specialists, who had access to information that was difficult for Clearance to obtain readily from other sources. McVICAR said that EDWARD P. TAPPE, Chairman, Solid and Liquid Fuels, WFB, was his particular contact on fuel contracts. TAPPE was consulted for his recommendations on prices, ability of oil companies to perform, and other technical knowledge. McVICAR said that TAPPE presently resides at the following address: Apartment 105, 1707 Columbia Road, N.W., Washington, D.C., telephone Adams 5498.

McVICAR recalled that particular attention was given to contracts for purchase of oil outside the continental limits of the United States, but he

(DS 46-1005)

could recall no indication of irregularities. He further stated that to his recollection none of his staff had been employed by oil companies prior to Government service, nor had accepted employment with any oil companies after Government service.

McVICAR further stated that FRANK M. REINHOLD, Lieutenant, USNR, was an Analyst on his staff, and not his assistant. McVICAR's assistant was EDWARD FITZ GERALD, who succeeded to the position of Chief when McVICAR terminated this position on July 5, 1945.

Present during the interview was McVICAR's wife, nee MADELINE BENTON LIBBY. Mrs. McVICAR worked as Secretary and Chief Clerk in charge of clearance in the Contract Clearance Division. In this connection she typed clearance documents and analysis sheets, took dictation from analysts, and acted as liaison between McVICAR and his staff.

Until recently McVICAR was Senior Buyer, Purchasing Department, Ford Motor Company, Dearborn, Michigan. He is leaving this employment as of October 20, 1948, and advised that in the event further information is desired from him, that if he can not be located at his Detroit address he may be located through the following address:

c/o Mrs. A. L. MacMILLAN  
64 Homer Street  
Newton Centre, Massachusetts  
Telephone: LaSalle 7-8931

- REFERRED UPON COMPLETION TO  
THE OFFICE OF ORIGIN -



# Office Memorandum • UNITED STATES GOVERNMENT

TO : DIRECTOR, FBI

DATE: October 6, 1948

~~FROM~~ : GUY HOTTEL, SAC, WASHINGTON FIELD

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI  
ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM  
CIVIL SUIT

Information has been received from the Philadelphia Office to the effect that the personnel file of FRANK MILTON REDHOLD, a former employee of the Navy Department, whose file was reported to have been sent to the Naval Records Management Center, Mechanicsburg, Pennsylvania, could not be located at that place.

The Philadelphia Office further advised that C. WARNER McVICAR was born October 31, 1904 at Detroit, Michigan, and from 1923 to 1942 was employed as Cashier and General Purchasing Agent for the Detroit and Cleveland Navigation Company, Detroit, Michigan.

On July 2, 1942, McVICAR was appointed Principal Administrative Officer, Contract Claims Section, Procurement Branch of the Office of Procurement and Material, Executive Office of the Secretary, Navy Department, Washington, D. C. On December 18, 1945, he left the Navy Department and became a Consultant, Electronics and Communications Branch of the War Assets Administration.

The file of McVICAR at Mechanicsburg, Pennsylvania, reflected that McVICAR resided at Apartment 106, 375 West Grand Boulevard, Detroit, Michigan, and that his father ARCHIE A. Mc VICAR resided at Apartment No. 1, 7433 Beechwood Avenue, Detroit, Michigan. While residing in Washington, D. C., McVICAR lived at 4717 Chevy Chase Boulevard, Chevy Chase, Maryland.

Inasmuch as McVICAR is believed to be presently residing in Detroit, Michigan, the Detroit Office is requested to locate and interview C. WARNER McVICAR, former employee of the Executive Office of the Secretary, Navy Department, Washington, D. C., as to his part in negotiating the contract with the Arabian American Oil Company, and also his part in negotiating for the purchase of oil from the California Texas Company.

For the information of the Detroit Office, the United States Navy entered into fourteen contracts for the purchase of oil from the Persian Gulf Area, from the California Texas Oil Company, and the Arabian American Oil Company. These contracts cover a period from March 23, 1942 to December 16, 1942, and the oil actually delivered under these contracts amounted to a total of

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46-1908

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Letter to Director, FBI

46,303,542 barrels at a total cost to the United States Navy of \$65,190,929.54. Allegations have been made that the cost of production of sold oil to the Arabian American Oil Company and the California Texas Oil Company, varied between 33¢ and 40¢ per barrel. The United States Navy up until 1945 was paying for this oil 85¢ per barrel. After July 1945, the price for this fuel oil was raised to \$1.05 per barrel. Prior to September 1945, the Navy was purchasing diesel oil for \$1.25 per barrel. After September 1945, the price of this same oil was increased to \$1.68 per barrel.

The allegations made by certain individuals concerning the excessive price paid by United States Navy for oil purchased from these two companies, assert that this same oil could have been purchased by the Navy at a much cheaper rate. It was further alleged that prior to entering into the first contract for the purchase of oil with the California Texas Oil Company, the United States Navy had been offered the identical oil from the Persian Gulf Area for a much less amount, but this offer had been rejected due to the fact that it was unsuitable for Naval use.

It has been alleged that officials of oil companies temporarily on the rolls of Government service, have influenced the Navy Department to purchase this oil from the Arabian American Oil Company and the California Texas Oil Company at a higher price.

For the information of the Detroit Office, C. WARNER MOTTICAR in his capacity as Principal Administrative Officer, and later Head Administrative Officer in the Procurement Branch, Executive Office of the Secretary, was instrumental in granting the contracts to the Arabian American Oil Company and the California Texas Oil Company.

For the information of the Detroit Office, there are being enclosed herewith the following reports which will give a complete background of instant case.

Report of Special Agent J. HERMAN COOK (A) dated January 7, 1948  
at Washington, D. C.

Report of Special Agent J. HERMAN COOK (A) dated February 6, 1948  
at Washington, D. C.

Report of Special Agent WILLIAM A. HILFTH, New York City, New York  
dated February 24, 1948.

Letter to Director, FBI

Report of Special Agent J. BERNARD COOK (A) dated March 29,  
1948 at Washington, D. C.

It is requested that the results of the interview of C. WARNER McVICAR  
be furnished in report form, three copies of which are to be transmitted to the  
Bureau.

CC: Detroit (Enc.)

JEC:LAB  
46-1908

UNITED STATES NAVY CONTRACTS FOR PURCHASE OF BULK OILS AND FUELS  
 ANALYSIS OF INCOME TAX RETURNS - 1953 to 1954 Incl.

|                                      | 1953       | 1954      | 1953      | 1954      |
|--------------------------------------|------------|-----------|-----------|-----------|
| OTHER SALES                          | 19,100.00  | 7,000.00  | 10,000.00 | 10,000.00 |
| Income from sale of other assets     | 1,000.00   | 1,000.00  | 1,000.00  | 1,000.00  |
| OTHER INCOME                         | 1,000.00   | 1,000.00  | 1,000.00  | 1,000.00  |
| OTHER DEDUCTIONS                     |            |           |           |           |
| DEDUCTIONS OF CAPITAL GAINS OVER 10% |            |           |           | 10,000.00 |
| DEDUCTIONS                           |            |           |           | 10,000.00 |
| OTHER INCOME                         | (1,000.00) | 1,000.00  | 1,000.00  | 1,000.00  |
| TOTAL INCOME                         | 19,100.00  | 7,000.00  | 12,000.00 | 21,000.00 |
| EXPENSES                             |            |           |           |           |
| DEPRECIATION OF ASSETS               |            |           |           | 10,000.00 |
| INTEREST & DIVIDEND                  | (1,000.00) | 10,000.00 | 10,000.00 | 10,000.00 |
| TAXES                                | 1,000.00   | 10,000.00 | 10,000.00 | 10,000.00 |
| INCOME BY FIVE, etc.                 | 1,000.00   | 10,000.00 | 10,000.00 | 10,000.00 |
| DEPRECIATION                         | 10,000.00  | 10,000.00 | 10,000.00 | 10,000.00 |
| DEPRECIATION OF OIL WELLS, etc.      | 10,000.00  | 10,000.00 | 10,000.00 | 10,000.00 |
| DEPRECIATION OF BUNKER FACILITIES    |            |           |           | 10,000.00 |
| PROPERTY & SECURITY PLAN             |            |           |           | 10,000.00 |
| OTHER DEDUCTIONS                     |            | 10,000.00 |           | 10,000.00 |
| NET OPERATING LOSS DEDUCTION         | 10,000.00  |           |           | 10,000.00 |
| NET LOSS OR LOSS                     | 10,000.00  | 10,000.00 | 10,000.00 | 10,000.00 |
| INCOME TAX DEBIT                     |            |           |           | 10,000.00 |

UNITED STATES NAVAL CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS  
 ANALYSIS OF OTHER COSTS - 1943 TO 1946 (incl.)

|  | 1943        | 1944        | 1945         | 1946         |
|--|-------------|-------------|--------------|--------------|
| ROYALTY ON PRODUCTION                  |             | 6,276,630   | 10,270,000   | 11,875,000   |
| LABOR                                  | 1,271,111   | 1,750,000   | 2,250,000    | 2,000,000    |
| MATERIALS & SUPPLIES                   | 2,432,770   | 2,612,000   | 2,000,000    | 1,000,000    |
| SERVICES                               | 2,250,000   | 1,200,000   |              |              |
| SERVICES TO SAUDI ARABIAN GOV'T        | 1,576,637   | 4,200,000   | 12,000,000   | 7,200,000    |
| SERVICES - UTILITIES                   |             |             | 1,971,000    | 2,200,000    |
| GENERAL SERVICE EXPENSE & OVERHEAD     | 2,662,224   | 9,134,660   |              |              |
| MAJOR ALTERATIONS                      | 2,100,000   | 1,200,000   | 1,000,000    | 2,000,000    |
| ENTANGLEMENT DEVELOPMENT COSTS         | 1,171,000   | 1,200,000   | 1,000,000    | 1,200,000    |
| GENERAL OVERHEAD                       | 1,600,000   |             |              |              |
| COST OF OIL USED IN OPERATIONS         | (1,368,887) | (6,977,000) |              |              |
| PRODUCTS DELIVERED UNDER CONTRACT      | 7,500,000   | 7,900,000   |              |              |
| MISCELLANEOUS                          | 650,000     | 1,200,000   | 4,000,000    | 9,500,000    |
| WORTHLESS ACCOUNTS WRITTEN OFF         | 150,000     | 600,000     | 1,000,000    |              |
| ABO WAREHOUSE MAINTENANCE              | 18,000,000  | 2,500,000   | 10,000,000   |              |
| ARRANGEMENT LOSSES                     | 2,400,000   | 1,000,000   | 7,000,000    |              |
| GENERAL EXPENSE                        | 700,000     | 1,000,000   | 1,000,000    |              |
| EXPERIMENTAL EXPENSE                   | 4,000,000   |             |              |              |
| COST OF OIL DELIVERED TO NEPHEW        |             | (1,000,000) |              |              |
| MINERAL COMMISSION #2                  |             | 16,500,000  | 14,000,000   |              |
| PRELIMINARY SURVEY & EXPERIMENTAL EXP. |             | 2,600,000   | 8,000,000    |              |
| LOSS OF RESERVE VALUE ON PROPERTY      |             |             |              |              |
| PROTECTION FACILITIES, REHABILITATED   |             | 2,000,000   |              |              |
| REHABILITATION COSTS OF PROPERTY       |             |             |              |              |
| PROTECTION FACILITIES                  |             | 2,000,000   |              |              |
| GAINS ON INSURANCE & DAMAGE CLAIMS     |             | (500,000)   |              |              |
| PERSONAL LOSSES ACCOUNT OF WAR         |             | 100,000     |              |              |
| EL JANF MAINTENANCE EXPENSE            |             | 4,000,000   | 7,000,000    |              |
| TRANSPORTATION EXPENSE                 |             |             | 4,000,000    | 16,000,000   |
| ADMINISTRATIVE & GENERAL EXPENSE       |             |             | 1,000,000    | 1,000,000    |
| FILLING & SHIPPING EXPENSE             |             |             | 2,000,000    | 1,000,000    |
| EXCHANGE                               |             |             | (1,000,000)  |              |
| OIL CONSUMED                           |             |             | (10,000,000) | (10,000,000) |
| SAN FRANCISCO OVERHEAD                 |             |             |              | 1,000,000    |
| LOST TIME EXPENSE                      |             |             |              | 2,000,000    |
| LIVING EXPENSE                         |             |             |              | 4,000,000    |
| GENERAL FIELD EXPENSE                  |             |             |              | 5,000,000    |
| STOCK LOSSES & PAULSON STOCK ADJUST.   |             |             |              | (1,000,000)  |
| TOTAL                                  |             |             |              |              |

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1  
THIS CASE ORIGINATED AT

WASHINGTON, D. C.

FILE NO. 46-1908

|   |                 |   |   |
|---|-----------------|---|---|
| REPORT MADE AT<br>WASHINGTON, D. C.   | DATE<br>6-22-48 | PERIOD FOR WHICH MADE<br>7/20-22, 27/48 | REPORT MADE BY<br>J. BERNARD COOK (A)      dmh      |
| TITLE<br>U. S. NAVY CONTRACTS FOR PURCHASE OF SAUDI<br>ARABIAN PETROLEUM PRODUCTS |                 |   | CHARACTERS OF CASE<br>KAR FRAUD CLAIM<br>CIVIL SUIT |

b3 26 USC 6103 Per IRS

SYNOPSIS OF FACTS:

AT

6-22-48

FK1

- P -

REFERENCE: Bureau file No. 46-13326  
 Report of Special Agent (A) J. BERNARD COOK at  
 Washington, D.C., dated June 22, 1948  
 Philadelphia letter dated July 19, 1948

G. I. R. - 2

DETAILS: AT WASHINGTON, D. C.

b3 26 USC 6103 Per IRS

SEARCHED BY

|   |                             |
|---|-----------------------------|
| 46-13326-185  | RECORDED - 4<br>INDEXED - 4 |
| Bureau<br>2-Philadelphia (46-1099)<br>2-New York (46-1099)<br>2-San Francisco (46-1099)<br>1-Washington | FBI<br>AUG 9 1948           |

WFO 46 1009

The Philadelphia Office reported that the personnel files of FRANK  
1. REINHOLD and 2. WARNER MC VICAR could not be located in Mechanicsburg,  
Pennsylvania, with the information previously furnished.

A further inquiry at the Navy Department reflected that FRANK  
MILTON REINHOLD served under contract No. 652 as a dollar a year man from  
May 3, 1944, to June 30, 1944. He resigned from the civilian employ of the  
Navy Department to accept a commission in the United States Navy. His file  
was sent to Mechanicsburg on February 5, 1946.

3. WARNER MC VICAR served in a civilian capacity with the Navy  
Department from July 2, 1942, to May 10, 1946. He was born on October 31,  
1904. This file was sent to Mechanicsburg on May 12, 1948.

P E N D I N G

WFO 46-1908

LEADS:

**THE PHILADELPHIA DIVISION:**

At Mechanicsburg, Pennsylvania will again endeavor to locate the personnel files of C. WARNER MC VICAR and FRANK W. REINHOLD, former Navy Department employees, and obtain complete information from these files in order that these individuals might be interviewed concerning their connection with the awarding of contracts to the Arabian American Oil Company by the U. S. Navy.

**THE WASHINGTON FIELD DIVISION:**

At Washington, D.C. will upon receipt of information from the Philadelphia Division arrange to have FRANK W. REINHOLD and C. WARNER MC VICAR interviewed concerning their connection with the awarding of contracts by the Navy Department to the Arabian American Oil Company.

Copies of this report are being sent to the New York and San Francisco Offices for information purposes.





Casey Oil Products Co

ALCO 4181 Nov 23, 1947

106,976 Nov 19, 1947

87,437  
87,437  
87,437  
87,437  
87,437

McC. Co., Inc

2,235,922.00

106,953 Nov 19, 1947  
106,934 Nov 19, 1947

87,437  
87,437  
87,437  
87,437

541,000  
187,620

105,717 Nov 24, 1947

87,437  
87,437  
87,437

2,235,922.00

105,996 Nov 24, 1947

87,437  
87,437

3,670,150

116,610 Nov 1, 1947

87,437

2,670,710.1

116,556 Nov 2, 1947

87,437

112,260

121,130 Nov 16, 1947

87,437

2,560,905

124,688 Nov 23, 1947

87,437

3,570,210

124,700 Nov 24, 1947

87,437

5,600,000

123,968 Nov 2, 1947

87,437

2,180,000

131,474 Nov 1, 1947

87,437

7,090,160

137,601 Nov 15, 1947

87,437

11,500,000

133,806 Nov 15, 1947

87,437

10,700,000

134,449 Nov 2, 1947

87,437

3,900,000

135,903 Nov 20, 1947

87,437

1,800,000

131,956 Nov 24, 1947

87,437

7,700,000

145,908 Nov 12, 1947

87,437

3,800,000



Contract No. Date of Contract Change No. Date of Change

| Contract No. | Date of Contract | Change No. | Date of Change | Particulars   | Amount   |
|--------------|------------------|------------|----------------|---------------|----------|
|              |                  |            |                |               | 33171    |
|              |                  |            |                |               | 33171    |
| 179,368      | Sept. 2, 1917    |            |                | P.C. Contract | 7137,336 |
|              |                  |            |                |               | 33,000   |
|              |                  |            |                |               | 33,001   |
|              |                  |            |                |               | 33,002   |
|              |                  |            |                |               | 33,003   |
| 179,388      | Sept. 2, 1917    |            |                |               | 33,004   |
|              |                  |            |                |               | 33,005   |
| 179,407      | Sept. 3, 1917    |            |                |               | 34,000   |
| 179,407      | Sept. 25, 1917   |            |                |               | 43,001   |
|              |                  |            |                |               | 43,002   |
|              |                  |            |                |               | 43,003   |
|              |                  |            |                |               | 43,004   |
| 179,570      | Sept. 25, 1917   |            |                |               | 43,005   |
|              |                  |            |                |               | 43,006   |
|              |                  |            |                |               | 43,007   |
|              |                  |            |                |               | 43,008   |
| 179,691      | Sept. 25, 1917   |            |                |               | 43,009   |
|              |                  |            |                |               | 43,010   |
|              |                  |            |                |               | 43,011   |
|              |                  |            |                |               | 43,012   |
|              |                  |            |                |               | 43,013   |
|              |                  |            |                |               | 43,014   |
| 179,806      | Oct. 3, 1917     |            |                |               | 43,015   |
|              |                  |            |                |               | 43,016   |
|              |                  |            |                |               | 43,017   |
|              |                  |            |                |               | 43,018   |
|              |                  |            |                |               | 43,019   |
| 179,819      | Oct. 16, 1917    |            |                |               | 43,020   |
|              |                  |            |                |               | 43,021   |
|              |                  |            |                |               | 43,022   |
|              |                  |            |                |               | 43,023   |
| 179,869      | Oct. 16, 1917    |            |                |               | 43,024   |
|              |                  |            |                |               | 43,025   |
|              |                  |            |                |               | 43,026   |
|              |                  |            |                |               | 43,027   |
|              |                  |            |                |               | 43,028   |
| 179,915      | Oct. 24, 1917    |            |                |               | 43,029   |
|              |                  |            |                |               | 43,030   |
|              |                  |            |                |               | 43,031   |
|              |                  |            |                |               | 43,032   |
| 179,919      | Oct. 24, 1917    |            |                |               | 43,033   |
|              |                  |            |                |               | 43,034   |
|              |                  |            |                |               | 43,035   |
|              |                  |            |                |               | 43,036   |
|              |                  |            |                |               | 43,037   |
|              |                  |            |                |               | 43,038   |
|              |                  |            |                |               | 43,039   |
|              |                  |            |                |               | 43,040   |
|              |                  |            |                |               | 43,041   |
|              |                  |            |                |               | 43,042   |
|              |                  |            |                |               | 43,043   |
|              |                  |            |                |               | 43,044   |
|              |                  |            |                |               | 43,045   |
|              |                  |            |                |               | 43,046   |
|              |                  |            |                |               | 43,047   |
|              |                  |            |                |               | 43,048   |
|              |                  |            |                |               | 43,049   |
|              |                  |            |                |               | 43,050   |
|              |                  |            |                |               | 43,051   |
|              |                  |            |                |               | 43,052   |
|              |                  |            |                |               | 43,053   |
|              |                  |            |                |               | 43,054   |
|              |                  |            |                |               | 43,055   |
|              |                  |            |                |               | 43,056   |
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|              |                  |            |                |               | 43,066   |
|              |                  |            |                |               | 43,067   |
|              |                  |            |                |               | 43,068   |
|              |                  |            |                |               | 43,069   |
|              |                  |            |                |               | 43,070   |
|              |                  |            |                |               | 43,071   |
|              |                  |            |                |               | 43,072   |
|              |                  |            |                |               | 43,073   |
|              |                  |            |                |               | 43,074   |
|              |                  |            |                |               | 43,075   |
|              |                  |            |                |               | 43,076   |
|              |                  |            |                |               | 43,077   |
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|              |                  |            |                |               | 43,079   |
|              |                  |            |                |               | 43,080   |
|              |                  |            |                |               | 43,081   |
|              |                  |            |                |               | 43,082   |
|              |                  |            |                |               | 43,083   |
|              |                  |            |                |               | 43,084   |
|              |                  |            |                |               | 43,085   |
|              |                  |            |                |               | 43,086   |
|              |                  |            |                |               | 43,087   |
|              |                  |            |                |               | 43,088   |
|              |                  |            |                |               | 43,089   |
|              |                  |            |                |               | 43,090   |
|              |                  |            |                |               | 43,091   |
|              |                  |            |                |               | 43,092   |
|              |                  |            |                |               | 43,093   |
|              |                  |            |                |               | 43,094   |
|              |                  |            |                |               | 43,095   |
|              |                  |            |                |               | 43,096   |
|              |                  |            |                |               | 43,097   |
|              |                  |            |                |               | 43,098   |
|              |                  |            |                |               | 43,099   |
|              |                  |            |                |               | 43,100   |



| DATE  | NO.           | DATE | NO.          | DATE | NO. | DATE | NO. |
|-------|---------------|------|--------------|------|-----|------|-----|
| 20876 | Aug 19, 1946  | 3667 | E. L. Jordan | 1947 |     |      |     |
| 21942 | Aug 26, 1946  | 3727 |              |      |     |      |     |
| 22219 | Sept 14, 1946 | 4042 |              |      |     |      |     |
| 23472 | Sept 23, 1946 | 4123 |              |      |     |      |     |
| 3665  | Oct 1, 1946   | 787  |              |      |     |      |     |
| 4261  | Oct 22, 1946  | 1191 |              |      |     |      |     |
| 45247 | Oct 21, 1946  | 1137 |              |      |     |      |     |
| 52307 | Nov 1, 1946   | 1733 |              |      |     |      |     |
| 5797  | Nov 5, 1946   | 2043 |              |      |     |      |     |
| 5798  | Nov 11, 1946  | 2607 |              |      |     |      |     |
| 5797  | Nov 15, 1946  | 2717 |              |      |     |      |     |
| 5795  | Nov 20, 1946  | 2713 |              |      |     |      |     |

|       |              |      |              |      |
|-------|--------------|------|--------------|------|
| 77526 | JAN 13, 1947 | 3307 | P.C. CORNING | 1279 |
| 7733  | JAN 2, 1947  | 4767 |              |      |
| 7787  | JAN 27, 1947 | 4630 |              |      |

|      |              |      |              |         |
|------|--------------|------|--------------|---------|
| 7946 | JAN 14, 1947 | 5225 | P.C. CORNING | 1269511 |
| 8775 | FEB 6, 1947  | 6744 |              |         |

|        |              |       |              |         |
|--------|--------------|-------|--------------|---------|
| 12373  | Apr 11, 1947 | 7767  | P.C. CORNING | 7582734 |
| 11969  | Apr 8, 1947  | 7238  |              |         |
| 11617  | Apr 7, 1947  | 7602  |              |         |
| 12867  | Apr 2, 1947  | 4513  |              |         |
| 134290 | Apr 16, 1947 | 12746 |              |         |

**CONTRACTS**

**Marine Aircraft Div Co**  
 New London Miss 9, 1945 745995 Oct 9, 1945 135945 W. H. Vandy 2701290  
 818927 Nov 9, 1945 778327 2656120  
 780469 Oct 10, 1945 76717 3155000 3991000

**Marine Aircraft Div Co**  
 New London Miss 12, 1945 783107 Dec 27, 1945 23117 E. L. Johnson 2056000  
 765810 Jan 21, 1946 76581 2070000  
 775523 Jan 27, 1946 59752 1876700  
 780591 Dec 10, 1945 73576 4005300  
 730411 April 6, 1946 76556 4001800 32562900

**Marine Aircraft Div Co**  
 New London Miss 12, 1945 777947 Feb 4, 1946 74165 E. L. Johnson 3980170  
 770207 Mar 4, 1946 20716 3075200  
 787667 Mar 21, 1946 780971 5900000  
 780666 Mar 6, 1946 78772 7512000  
 739565 Mar 25, 1946 761920 5991000  
 745636 Apr 7, 1946 761865 2076200  
 744520 Apr 3, 1946 74925 1922100  
 777249 Apr 1, 1946 715000 3309500  
 751771 Apr 7, 1946 71114 1095000  
 759625 Apr 1, 1946 71000 5500000  
 757700 Mar 2, 1946 752912 9203200  
 762440 Mar 1, 1946 74191 6060000  
 763647 Mar 2, 1946 74000 7050000  
 764027 Mar 7, 1946 74000 5050000  
 767000 Mar 1, 1946 74000 7050000  
 767800 Mar 1, 1946 74000 5050000  
 774200 Mar 1, 1946 74000 7050000  
 775700 Mar 1, 1946 74000 7050000  
 776000 Mar 1, 1946 74000 7050000  
 776200 Mar 1, 1946 74000 7050000  
 776400 Mar 1, 1946 74000 7050000  
 776600 Mar 1, 1946 74000 7050000  
 776800 Mar 1, 1946 74000 7050000  
 777000 Mar 1, 1946 74000 7050000  
 777200 Mar 1, 1946 74000 7050000  
 777400 Mar 1, 1946 74000 7050000  
 777600 Mar 1, 1946 74000 7050000  
 777800 Mar 1, 1946 74000 7050000  
 778000 Mar 1, 1946 74000 7050000  
 778200 Mar 1, 1946 74000 7050000  
 778400 Mar 1, 1946 74000 7050000  
 778600 Mar 1, 1946 74000 7050000  
 778800 Mar 1, 1946 74000 7050000  
 779000 Mar 1, 1946 74000 7050000  
 779200 Mar 1, 1946 74000 7050000  
 779400 Mar 1, 1946 74000 7050000  
 779600 Mar 1, 1946 74000 7050000  
 779800 Mar 1, 1946 74000 7050000  
 780000 Mar 1, 1946 74000 7050000

Assistant Attorney General R. C. Morrison  
Attention: Mr. Joseph M. Friedman  
Director, FBI

July 8, 1948

RECORDED - 70  
EX-19  
UNITED STATES NAVY CONTRACTS FOR  
PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS  
FRAUD CLAIM  
CIVIL SUIT

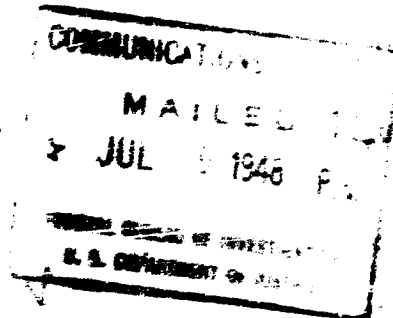
46-1336-82  
There are attached hereto photostatic copies of the "Analysis of  
payments for oil delivered to U. S. Navy," which are to be attached and made  
a part of the report of Special Agent (A) J. Bernard Cook at Washington,  
D. C., dated May 25, 1948.

This report was furnished to you on June 12, 1948.

cc Washington Field Office

Mr. Tolson  
Mr. E. A. Tamm  
Mr. Clegg  
Mr. Glavin  
Mr. Ladd  
Mr. Nichols  
Mr. Rosen  
Mr. Tracy  
Mr. Carson  
Mr. Egan  
Mr. Gurnea  
Mr. Harbo  
Mr. Hendon  
Mr. Pennington  
Mr. Quinn  
Mr. Nease  
Miss Gandy

AMH:am  
Aer



serial 82

61 JUL 30 1948

RECEIVED  
FBI  
JUL 10 1948

A. L. ...  
Ry



# Office Memorandum • UNITED STATES GOVERNMENT

TO : DIRECTOR, FBI

DATE: June 22, 1948

*Copy* FROM : GUY HOTTEL, SAC, WASHINGTON FIELD

SUBJECT: UNITED STATES NAVY CONTRACTS FOR  
PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM  
CIVIL SUIT

*761*

Reference is made to report dated May 26, 1948, at Washington, D. C., by Special Agent J. BERNARD COOK, (A).

There is enclosed herewith to the Bureau and to all offices receiving copies of this communication, sufficient photostatic copies of the "Analysis of payments for oil delivered to US Navy," to be attached to and made a part of report of Special Agent (A) J. BERNARD COOK dated May 26, 1948.

It is requested that all offices receiving copies of this letter, attach to and make a part of the report of reference, the above-mentioned analysis consisting of seven pages.

LHC.

CC: Los Angeles )  
New York ) Enc.  
San Francisco )

~~XXXXXXXXXX~~  
*uu*

JEC:LAS  
46-1908

*ENCLOSURE*  
*75*

*2-15 memo with exhibits*  
*2-15 memo*  
*Jan 7-8-48*

SEARCHED  
SERIALIZED

**EX-19**

*146-13326-82*  
19 JUL 23 1948

*EX-19*  
*7/22/48*

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1  
THIS CASE ORIGINATED AT

WASHINGTON, D. C.

FILE NO. 46-1908

|  |                                  |  |  |
|--|----------------------------------|--|--|
| REPORT MADE AT<br><b>WASHINGTON, D. C.</b> | DATE WHEN MADE<br><b>6-10-48</b> | PERIOD FOR WHICH MADE<br><b>5-28; 6-7-48</b> | REPORT MADE BY<br><b>J. BERNARD COOK (A) dmh</b> |
|--|----------------------------------|--|--|

|   |  |
|---|--|
| TITLE<br><b>UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS</b> | CHARACTER OF CASE<br><b>WAR FRAUD CLAIM<br/>CIVIL SUIT</b> |
|---|--|

**SYNOPSIS OF FACTS:** Personnel files of **FRANK M. REINHOLD** and **C. WARNER MC VICAR** transferred to Mechanicsburg, Pennsylvania. Letter from **J. T. DUKE** to **F. A. DAVIES**, dated January 26, 1946, set out.

- P -

**REFERENCE:** Bureau file No. 46-13326  
Report of Special Agent (A) **J. BERNARD COOK** at Washington, D.C., dated May 26, 1948

**DETAILS:** AT WASHINGTON, D. C.

Mr. **HERMAN**, Room 1241 Navy Building, stated that the original personnel files of **FRANK M. REINHOLD** and **C. WARNER MC VICAR** have been transferred to the Navy files at Mechanicsburg, Pennsylvania.

Mr. **HERMAN** stated that his card record reflected that **FRANK M. REINHOLD** was employed at the Navy Department from May 3 to June 30, 1944, as an analyst in the Construction Clearance Division, receiving a pay rate of \$14.52 per day. The card record reflected that **C. WARNER MC VICAR** was born on October 31, 1904, and was employed in the Navy Department from July 2, 1942, to May 10, 1946, at which time he resigned to accept another position. At the time of his resignation he was an administrative officer in grade CAF 13, receiving a salary of \$6,440 per annum.

A review of the exhibits of the Special Committee Investigating the National Defense Program of the United States Senate reflected a letter dated January 26, 1946, from **J. T. DUKE** to **F. A. DAVIES**, which letter is as follows:

|  |  |
|--|--|
| <p style="text-align: center;"><i>[Handwritten signature]</i></p> <p style="text-align: center;">TITLE OF THIS REPORT</p> <p style="text-align: center;"> <b>2-15-1948</b><br/> <b>3-15-1948</b><br/> <b>15 1948</b><br/> <b>COPY IN FILE</b> </p> <p style="text-align: center;"><i>1cc Friedman 4/48</i></p> | <p style="text-align: center;">DO NOT WRITE IN THESE SPACES</p> <p style="text-align: center; font-size: 2em;">46-13326-76</p> <p style="text-align: center; font-size: 1.5em;">RECORDED - 5</p> <p style="text-align: center; font-size: 1.5em;">F B I</p> <p style="text-align: center; font-size: 1.5em;">31 JUN 1948</p> |
|--|--|

"Reflecting upon the possibility that with contracts now in force continuing throughout the year we may have considerable net, suggest you give some thought to a policy of allocating all possible charges against 1946 income.

"We might be in an embarrassing position with some people with whom we have contracts should our net be excessively high. I am recalling present position in Venezuela as result of large earnings of Greole, also possible effect in Washington."

In addition to the above letter there is set forth herewith a letter from J. T. DUCE, dated February 21, 1946, to Mr. J. H. McDONALD:

"With reference to LFN--1596.

"I have been going over the last figures sent me. May I complain a little that the figures on producing Dept. operations are a little abstruse in their present form. After doing a considerable amount of mental gyrations and arithmetical calculation I found out what the figure meant per barrel.

"I suggest that you get these figures and go into consultation with Mr. DALE HIX and recast the form slightly. I notice for instance, that operating expenses are divided into two categories—General expense of Operations and Royalty. I think these should be set apart so that one sees clearly which is which. The figure \$2.299 per barrel refers of course entirely to royalty while the other operating expense is \$.0796 per barrel. Similarly we have a number of other expenses which might well be segregated out so that the total \$.3310 per barrel is clearly arrived at for operating and general expenses. The set-up would then become less mystifying when one takes a first glance at it.

"I have time myself to do the mental gyrations necessary to clarify the statement as it now stands but I can imagine people like Mr. KEMP would be somewhat annoyed by its present form.

"This is a criticism as to form only. The figures are okay."

P E N D I N G

WFO 46-1908

LEADS:

THE PHILADELPHIA DIVISION:

At Mechanicsburg, Pa. will review the personnel files of C. WARNER MC VICAR and FRANK M. REINHOLD, former Navy Department employees, and obtain a complete description of their duties in the Navy Department, together with the formal positions held by these former employees and also the positions which they accepted upon resignation.

THE WASHINGTON FIELD DIVISION:

\* At Washington, D.C. will after  are received from the Bureau, prepare an analysis of same. b7E

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1

THIS CASE ORIGINATED AT

WASHINGTON, D. C.

FILE NO. 46-1908

|   |                                  |  |  |
|---|----------------------------------|--|--|
| REPORT MADE AT<br><b>WASHINGTON, D. C.</b>  | DATE WHEN MADE<br><b>5/26/48</b> | PERIOD FOR WHICH MADE<br><b>5/8, 11, 12, 13, 15, 16/48</b> | REPORT MADE BY<br><b>J. BERNARD COOK, SA (A)</b> IAS   |
| TITLE<br><b>UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS</b> |                                  |  | CHARACTER OF CASE<br><b>WAR FRAUD CLAIM CIVIL SUIT</b> |

**SYNOPSIS OF FACTS:**

Analysis of payments for oil delivered to United States Navy from Saudi Arabia reflect that total of \$68,700,184.15 worth of oil delivered and paid for by United States Government under fourteen contracts. Additional \$16,435.35 paid to California Texas Oil Company (Overseas) Limited, under Contract No. MXX-1499 on July 13, 1946. Total paid for oil products delivered amounted to \$68,716,619.50. Certified copies of contracts, vouchers and checks obtained and transmitted to Bureau. EDWARD P. TAFFE, employed as dollar-a-year man, War Products Board, from October 1, 1943 to September 28, 1945.

- P -

**REFERENCE:**

Bureau File No. 46-13326.  
Report of Special Agent (A) J. BERNARD COOK dated March 29, 1948 at Washington, D. C.  
Letter to Bureau from San Francisco dated May 1, 1948.  
Bureau Letter to New York dated May 11, 1948.

**DETAILS:**

AT WASHINGTON, D. C.

An analysis of the vouchers and checks paid for oil delivered by the Caltex Oil Products Company, the California Texas Oil Company (Overseas) Limited, and the Mexican American Oil Company to the United States Navy from 1942 to 1947 revealed the following payments made to these companies for oil delivered by the United States Government:

- COPIES OF THIS REPORT**
- 3 - Bureau (Enc.)
  - 2 - Los Angeles (Info.)
  - 2 - New York (Info.)
  - 5 - [redacted] (Info.)
  - 1 - [redacted] field

DO NOT WRITE IN THESE SPACES

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EX - 10

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|   |                        |
|---|------------------------|
| Caltex Oil Products Company (one contract)                      | \$23,277,545.13        |
| California Texas Oil Company (Overseas) Limited (six contracts) | 15,940,057.59          |
| Arabian American Oil Company (seven contracts)                  | <u>29,482,581.43</u>   |
| Total of Contracts  | <u>\$68,700,184.15</u> |

This analysis reflects the following payments made to these companies under the various contracts:

| <u>CONTRACT NO.</u> | <u>DATE OF CONTRACT</u> | <u>AMOUNT PAID BY GOV'T</u> |
|---------------------|-------------------------|-----------------------------|
| NSI-151             | March 20, 1946          | \$ 7,678,851.68             |
| NSI-4181            | November 22, 1946       | 23,277,545.13               |
| NS-6166             | May 25, 1942            | 269,197.63                  |
| NSI-31315           | November 1, 1942        | 488,510.39                  |
| NSI-34155           | June 25, 1943           | 206,474.54                  |
| NSI-95004           | March 2, 1945           | 181,534.70                  |
| NSI-14539           | September 19, 1945      | 7,115,488.65                |
| NSI-2375            | June 14, 1946           | 6,100,072.59                |
| NSI-3956            | October 14, 1946        | 895,927.58                  |
| NSI-4207            | November 8, 1946        | 242,790.27                  |
| NSI-4856            | December 16, 1946       | 1,399,069.32                |
| NSI-11-10985        | July 9, 1945            | 949,343.58                  |
| NSI-12927           | September 13, 1945      | 3,235,627.95                |
| NSI-16969           | November 20, 1945       | <u>15,659,750.14</u>        |
| Total of Contracts  |                         | <u>\$68,700,184.15</u>      |

In addition to the above fourteen contracts, the General Accounting Office, Washington, D. C., transmitted with the certified copies of the fourteen contracts together with the vouchers and checks in payment thereof, a voucher in payment of Contract No. NSI-1499 dated April 3, 1946. This voucher was payable to the California Texas Oil Company (Overseas) Limited, Voucher No. 14066 in the amount of \$16,435.35. This amount was paid by United States Treasury Check No. 2816 dated July 18, 1946. The total amount paid to the three oil companies, including Contract No. NSI-1499, amounted to \$68,716,619.50.

There is set forth herewith an analysis of the payments for oil delivered by the California Tense Oil Company (Overseas) Limited, The Caltex Oil Products Company, and the Arabian American Oil Company, from 1942 to 1947. This analysis includes the fourteen contracts which are the subject of this investigation.

The certified copies of the fourteen contracts together with the vouchers and checks in payment thereof, which were obtained from the General Accounting Office, are being transmitted to the Bureau with copies of this report.

Misc ELIZABETH B. DENNY, Room 605, Archive Building, Washington, D. C., turned over the personnel file of EDWARD P. TAAFE for review.

This file reflected that EDWARD P. TAAFE took the oath of office as a temporary dollar-a-year man on October 1, 1942. His position was Chief of the Fuel and Petroleum Products Section, Procurement Policy Division, Commodity Purchase Advisor's Office. This file reflected that TAAFE resided at 211 Waterman, Providence, Rhode Island. His business address was listed as the General Cable Corporation, 420 Lexington Avenue, New York City. He was born on December 2, 1883 at Philadelphia, Pennsylvania, and gave on his employment record the following previous employment:

- 1901 to 1930 - Philadelphia Electric Company, Philadelphia, Pennsylvania
- 1930 to 1932 - United Gas Improvement Company, 1401 Arch Street, Philadelphia, Pennsylvania, as Assistant Purchasing Agent.
- 1932 to 1941 - Independent Commission Man, selling industrial plant machinery and equipment.
- 1941 to May 31, 1942 - A.O.S. Corporation (Ordnance Manufacturers for Prime Defense Contracts for U. S. Navy) 100 Fountain Street, Providence, Rhode Island, Purchasing Agent.
- June 1942 to date - General Cable Corporation, as Industrial Consultant at a salary in excess of \$7500 per annum.

In this personnel file, there was a short typewritten note dated August 29, 1945, addressed to "SIMP" which is as follows:











| Case No. | Case Name | Date | Amount |
|----------|-----------|------|--------|
| 91810    | ...       | ...  | ...    |
| 91811    | ...       | ...  | ...    |
| 91812    | ...       | ...  | ...    |
| 91813    | ...       | ...  | ...    |
| 91814    | ...       | ...  | ...    |
| 91815    | ...       | ...  | ...    |
| 91816    | ...       | ...  | ...    |
| 91817    | ...       | ...  | ...    |
| 91818    | ...       | ...  | ...    |
| 91819    | ...       | ...  | ...    |
| 91820    | ...       | ...  | ...    |
| 91821    | ...       | ...  | ...    |
| 91822    | ...       | ...  | ...    |
| 91823    | ...       | ...  | ...    |
| 91824    | ...       | ...  | ...    |
| 91825    | ...       | ...  | ...    |
| 91826    | ...       | ...  | ...    |
| 91827    | ...       | ...  | ...    |
| 91828    | ...       | ...  | ...    |
| 91829    | ...       | ...  | ...    |
| 91830    | ...       | ...  | ...    |
| 91831    | ...       | ...  | ...    |
| 91832    | ...       | ...  | ...    |
| 91833    | ...       | ...  | ...    |
| 91834    | ...       | ...  | ...    |
| 91835    | ...       | ...  | ...    |
| 91836    | ...       | ...  | ...    |
| 91837    | ...       | ...  | ...    |
| 91838    | ...       | ...  | ...    |
| 91839    | ...       | ...  | ...    |
| 91840    | ...       | ...  | ...    |
| 91841    | ...       | ...  | ...    |
| 91842    | ...       | ...  | ...    |
| 91843    | ...       | ...  | ...    |
| 91844    | ...       | ...  | ...    |
| 91845    | ...       | ...  | ...    |
| 91846    | ...       | ...  | ...    |
| 91847    | ...       | ...  | ...    |
| 91848    | ...       | ...  | ...    |
| 91849    | ...       | ...  | ...    |
| 91850    | ...       | ...  | ...    |

| Case No. | Case Name | Date | Amount |
|----------|-----------|------|--------|
| 91851    | ...       | ...  | ...    |
| 91852    | ...       | ...  | ...    |
| 91853    | ...       | ...  | ...    |
| 91854    | ...       | ...  | ...    |
| 91855    | ...       | ...  | ...    |
| 91856    | ...       | ...  | ...    |
| 91857    | ...       | ...  | ...    |
| 91858    | ...       | ...  | ...    |
| 91859    | ...       | ...  | ...    |
| 91860    | ...       | ...  | ...    |
| 91861    | ...       | ...  | ...    |
| 91862    | ...       | ...  | ...    |
| 91863    | ...       | ...  | ...    |
| 91864    | ...       | ...  | ...    |
| 91865    | ...       | ...  | ...    |
| 91866    | ...       | ...  | ...    |
| 91867    | ...       | ...  | ...    |
| 91868    | ...       | ...  | ...    |
| 91869    | ...       | ...  | ...    |
| 91870    | ...       | ...  | ...    |
| 91871    | ...       | ...  | ...    |
| 91872    | ...       | ...  | ...    |
| 91873    | ...       | ...  | ...    |
| 91874    | ...       | ...  | ...    |
| 91875    | ...       | ...  | ...    |
| 91876    | ...       | ...  | ...    |
| 91877    | ...       | ...  | ...    |
| 91878    | ...       | ...  | ...    |
| 91879    | ...       | ...  | ...    |
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| 91881    | ...       | ...  | ...    |
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| 91884    | ...       | ...  | ...    |
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| 91886    | ...       | ...  | ...    |
| 91887    | ...       | ...  | ...    |
| 91888    | ...       | ...  | ...    |
| 91889    | ...       | ...  | ...    |
| 91890    | ...       | ...  | ...    |
| 91891    | ...       | ...  | ...    |
| 91892    | ...       | ...  | ...    |
| 91893    | ...       | ...  | ...    |
| 91894    | ...       | ...  | ...    |
| 91895    | ...       | ...  | ...    |
| 91896    | ...       | ...  | ...    |
| 91897    | ...       | ...  | ...    |
| 91898    | ...       | ...  | ...    |
| 91899    | ...       | ...  | ...    |
| 91900    | ...       | ...  | ...    |

1941-42 Date of Survey 2014-15 2012-13 Date of Survey 2014-15 2012-13

Area

Area

Area

Area

21972

30298  
31257  
32216  
33175  
34134

9494.60

21819

40000  
40415  
40830  
41245

14499.20

22792

51104  
51519  
51934

15773.70

25428

7171  
72126  
72541  
72956

5205.86

16111

11001  
11416  
11831  
12246

17932.10

42344

11330  
11745  
12160  
12575

17152.00

50317

19322  
19737  
20152  
20567

1507.70

55447

21793  
22208  
22623  
23038

12167.00

55990

26857  
27272  
27687  
28102

35500.00

57917

29709  
30124  
30539  
30954

36300.00

5725

3173  
32148  
32563  
32978

12055.00

14326

5551  
5592  
5633  
5674

555.00

72353

5704  
5745  
5786  
5827

370.00

7235

633  
674  
715  
756

211.00

7235

5025  
5066  
5107  
5148

211.00

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5025  
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5107  
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5107  
5148

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5066  
5107  
5148

211.00

1947-1948

| Account Name        | Account No. | Period       | Balance | Debit | Credit | Balance |
|---------------------|-------------|--------------|---------|-------|--------|---------|
| Robert Johnson & Co | 10000       | Jan 1, 1947  | 13000   |       |        | 13000   |
|                     | 10000       | Jan 31, 1947 | 11500   |       |        | 11500   |
|                     | 10000       | Feb 28, 1947 | 10000   |       |        | 10000   |
|                     | 10000       | Mar 31, 1947 | 8500    |       |        | 8500    |
| Robert Johnson & Co | 10000       | Apr 30, 1947 | 7000    |       |        | 7000    |
|                     | 10000       | May 31, 1947 | 5500    |       |        | 5500    |
|                     | 10000       | Jun 30, 1947 | 4000    |       |        | 4000    |
|                     | 10000       | Jul 31, 1947 | 2500    |       |        | 2500    |
|                     | 10000       | Aug 31, 1947 | 1000    |       |        | 1000    |
|                     | 10000       | Sep 30, 1947 | 0       |       |        | 0       |

| Account Name        | Account No. | Period       | Balance | Debit | Credit | Balance |
|---------------------|-------------|--------------|---------|-------|--------|---------|
| Robert Johnson & Co | 10000       | Oct 1, 1947  | 13000   |       |        | 13000   |
|                     | 10000       | Oct 31, 1947 | 11500   |       |        | 11500   |
|                     | 10000       | Nov 30, 1947 | 10000   |       |        | 10000   |
|                     | 10000       | Dec 31, 1947 | 8500    |       |        | 8500    |
|                     | 10000       | Jan 31, 1948 | 7000    |       |        | 7000    |
|                     | 10000       | Feb 28, 1948 | 5500    |       |        | 5500    |
|                     | 10000       | Mar 31, 1948 | 4000    |       |        | 4000    |
|                     | 10000       | Apr 30, 1948 | 2500    |       |        | 2500    |
|                     | 10000       | May 31, 1948 | 1000    |       |        | 1000    |
|                     | 10000       | Jun 30, 1948 | 0       |       |        | 0       |
|                     | 10000       | Jul 31, 1948 | 1500    |       |        | 1500    |
|                     | 10000       | Aug 31, 1948 | 3000    |       |        | 3000    |
|                     | 10000       | Sep 30, 1948 | 4500    |       |        | 4500    |
|                     | 10000       | Oct 31, 1948 | 6000    |       |        | 6000    |
|                     | 10000       | Nov 30, 1948 | 7500    |       |        | 7500    |

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Contract No. Date of Issue. Class No. Date of Issue. Description of Material. Unit Price. Total Amount.

|         |                |  |       |             |           |
|---------|----------------|--|-------|-------------|-----------|
|         |                |  | 33161 |             |           |
|         |                |  | 33162 |             |           |
| 171,365 | Sept. 2, 1947  |  | 33163 | P.C. Cement | 7737.37   |
|         |                |  | 33164 |             |           |
|         |                |  | 33165 |             |           |
| 171,381 | Sept. 2, 1947  |  | 33166 |             | 21005.00  |
|         |                |  | 33167 |             |           |
| 177,459 | Sept. 9, 1947  |  | 33168 |             | 14432.40  |
| 115,911 | Sept. 23, 1947 |  | 33169 |             | 6632.37   |
|         |                |  | 33170 |             |           |
|         |                |  | 33171 |             |           |
| 171,576 | Sept. 23, 1947 |  | 33172 |             | 8770.00   |
|         |                |  | 33173 |             |           |
|         |                |  | 33174 |             |           |
|         |                |  | 33175 |             |           |
| 177,191 | Sept. 25, 1947 |  | 33176 |             | 32293.63  |
|         |                |  | 33177 |             |           |
|         |                |  | 33178 |             |           |
|         |                |  | 33179 |             |           |
|         |                |  | 33180 |             |           |
|         |                |  | 33181 |             |           |
| 178,306 | Oct. 9, 1947   |  | 33182 |             | 11224.00  |
|         |                |  | 33183 |             |           |
|         |                |  | 33184 |             |           |
|         |                |  | 33185 |             |           |
| 174,007 | Oct. 17, 1947  |  | 33186 |             | 20,000.00 |
|         |                |  | 33187 |             |           |
|         |                |  | 33188 |             |           |
| 175,000 | Oct. 17, 1947  |  | 33189 |             | 4000.00   |
|         |                |  | 33190 |             |           |
|         |                |  | 33191 |             |           |
| 177,715 | Oct. 17, 1947  |  | 33192 |             | 0.00      |
|         |                |  | 33193 |             |           |
|         |                |  | 33194 |             |           |
|         |                |  | 33195 |             |           |
|         |                |  | 33196 |             |           |
|         |                |  | 33197 |             |           |
|         |                |  | 33198 |             |           |
|         |                |  | 33199 |             |           |
|         |                |  | 33200 |             |           |



| Contract No. | Date of Comm. | Office No. | Date of Issue | Delivered | Estimated Price | Actual Price |
|--------------|---------------|------------|---------------|-----------|-----------------|--------------|
| 106,906      | Nov 22, 1947  |            |               | 57,138    |                 |              |
|              |               |            |               | 57,137    |                 |              |
|              |               |            |               | 77,774    | P.C. Contract   | 2,357,000    |
|              |               |            |               | 77,771    |                 |              |
|              |               |            |               | 77,770    |                 |              |
| 106,933      | Nov 29, 1947  |            |               | 77,770    |                 | 2,111,600    |
| 106,937      | Nov 29, 1947  |            |               | 77,766    |                 | 2,111,600    |
|              |               |            |               | 77,765    |                 |              |
|              |               |            |               | 77,764    |                 |              |
|              |               |            |               | 77,763    |                 |              |
| 106,917      | Nov 24, 1947  |            |               | 77,762    |                 | 2,334,000    |
|              |               |            |               | 77,761    |                 |              |
|              |               |            |               | 77,760    |                 |              |
|              |               |            |               | 77,759    |                 |              |
| 106,916      | Nov 24, 1947  |            |               | 77,758    |                 | 2,334,000    |
|              |               |            |               | 77,757    |                 |              |
|              |               |            |               | 77,756    |                 |              |
| 106,911      | Nov 18, 1947  |            |               | 77,755    |                 | 2,334,000    |
| 170,826      | Apr 11, 1947  |            |               | 103,890   |                 | 112,126.00   |
| 151,128      | Apr 11, 1947  |            |               | 103,887   |                 | 256,671.5    |
|              |               |            |               | 103,886   |                 |              |
|              |               |            |               | 103,885   |                 |              |
| 104,153      | Apr 23, 1947  |            |               | 103,884   |                 | 369,000.00   |
|              |               |            |               | 103,883   |                 |              |
| 104,147      | Apr 23, 1947  |            |               | 103,882   |                 | 66,707.00    |
| 103,965      | Apr 6, 1947   |            |               | 103,881   |                 | 218,000.00   |
|              |               |            |               | 103,880   |                 |              |
|              |               |            |               | 103,879   |                 |              |
|              |               |            |               | 103,878   |                 |              |
| 103,474      | Mar 8, 1947   |            |               | 103,877   |                 | 258,100.00   |
|              |               |            |               | 103,876   |                 |              |
|              |               |            |               | 103,875   |                 |              |
|              |               |            |               | 103,874   |                 |              |
|              |               |            |               | 103,873   |                 |              |
| 127,227      | Mar 3, 1947   |            |               | 103,872   |                 | 1,000,000.00 |
| 103,473      | Mar 5, 1947   |            |               | 103,871   |                 | 1,000,000.00 |
| 103,472      | Mar 5, 1947   |            |               | 103,870   |                 | 2,334,000.00 |
| 103,471      | Mar 5, 1947   |            |               | 103,869   |                 | 1,000,000.00 |
| 135,453      | Mar 22, 1947  |            |               | 103,868   |                 | 1,000,000.00 |
|              |               |            |               | 103,867   |                 |              |
|              |               |            |               | 103,866   |                 |              |
| 131,400      | Mar 27, 1947  |            |               | 103,865   |                 | 1,000,000.00 |
|              |               |            |               | 103,864   |                 |              |
|              |               |            |               | 103,863   |                 |              |
| 145,101      | Mar 27, 1947  |            |               | 103,862   |                 | 2,334,000.00 |

| Account No. | Account Name | Balance | Debit | Credit | Balance |
|-------------|--------------|---------|-------|--------|---------|
| 100000      | ...          | 100000  |       |        | 100000  |
| 100001      | ...          | 100001  |       |        | 100001  |
| 100002      | ...          | 100002  |       |        | 100002  |
| 100003      | ...          | 100003  |       |        | 100003  |
| 100004      | ...          | 100004  |       |        | 100004  |
| 100005      | ...          | 100005  |       |        | 100005  |
| 100006      | ...          | 100006  |       |        | 100006  |
| 100007      | ...          | 100007  |       |        | 100007  |
| 100008      | ...          | 100008  |       |        | 100008  |
| 100009      | ...          | 100009  |       |        | 100009  |
| 100010      | ...          | 100010  |       |        | 100010  |
| 100011      | ...          | 100011  |       |        | 100011  |
| 100012      | ...          | 100012  |       |        | 100012  |
| 100013      | ...          | 100013  |       |        | 100013  |
| 100014      | ...          | 100014  |       |        | 100014  |
| 100015      | ...          | 100015  |       |        | 100015  |
| 100016      | ...          | 100016  |       |        | 100016  |
| 100017      | ...          | 100017  |       |        | 100017  |
| 100018      | ...          | 100018  |       |        | 100018  |
| 100019      | ...          | 100019  |       |        | 100019  |
| 100020      | ...          | 100020  |       |        | 100020  |
| 100021      | ...          | 100021  |       |        | 100021  |
| 100022      | ...          | 100022  |       |        | 100022  |
| 100023      | ...          | 100023  |       |        | 100023  |
| 100024      | ...          | 100024  |       |        | 100024  |
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| 100026      | ...          | 100026  |       |        | 100026  |
| 100027      | ...          | 100027  |       |        | 100027  |
| 100028      | ...          | 100028  |       |        | 100028  |
| 100029      | ...          | 100029  |       |        | 100029  |
| 100030      | ...          | 100030  |       |        | 100030  |
| 100031      | ...          | 100031  |       |        | 100031  |
| 100032      | ...          | 100032  |       |        | 100032  |
| 100033      | ...          | 100033  |       |        | 100033  |
| 100034      | ...          | 100034  |       |        | 100034  |
| 100035      | ...          | 100035  |       |        | 100035  |
| 100036      | ...          | 100036  |       |        | 100036  |
| 100037      | ...          | 100037  |       |        | 100037  |
| 100038      | ...          | 100038  |       |        | 100038  |
| 100039      | ...          | 100039  |       |        | 100039  |
| 100040      | ...          | 100040  |       |        | 100040  |
| 100041      | ...          | 100041  |       |        | 100041  |
| 100042      | ...          | 100042  |       |        | 100042  |
| 100043      | ...          | 100043  |       |        | 100043  |
| 100044      | ...          | 100044  |       |        | 100044  |
| 100045      | ...          | 100045  |       |        | 100045  |
| 100046      | ...          | 100046  |       |        | 100046  |
| 100047      | ...          | 100047  |       |        | 100047  |
| 100048      | ...          | 100048  |       |        | 100048  |
| 100049      | ...          | 100049  |       |        | 100049  |
| 100050      | ...          | 100050  |       |        | 100050  |

46-1908

"This is the file on ED TAAFE, which I mentioned over the phone yesterday. He is a high caliber gentleman, his work has been outstanding, particularly the tact which he exercised in having Naval Officers change fixed opinion."

This note is signed "T. B." and in pencil beneath the signature is the name TUDOR BOWEN.

On September 28, 1945, the services of EDWARD P. TAAFE with the War Products Board were terminated as the activities of that section were discontinued. He returned to his duties with his previous private employer.

**ENCLOSURES TO THE BUREAU:** Certified copies of the following contracts, together with the vouchers and checks in payment thereof:

**Caltex Oil Products Company**

Contract **WPSI-4181** dated November 22, 1946

**California Texas Oil Company (Overseas) Ltd.**

**WPSI-31315** - November 1, 1942  
**WPS-6166** - May 25, 1942  
**WPS-34155** - June 25, 1943  
**WPSI-95004** - March 2, 1945  
**WPSI-14539** - September 19, 1945  
**WPSI-151** - March 20, 1946

**Arabian American Oil Company**

**WPSI-11-10985** - July 9, 1945  
**WPSI-12927** - September 13, 1945  
**WPSI-12929** - November 20, 1945  
**WPSI-2375** - June 14, 1946  
**WPSI-3956** - October 14, 1946  
**WPSI-4207** - November 8, 1946  
**WPSI-4856** - December 16, 1946

- P E N D I N G -

46-1908

LEADS

THE WASHINGTON FIELD OFFICE

AT WASHINGTON, D. C.

Will ascertain the history and associates of FRANK M. REINHOLD and McVICAR, former employees of the office of the Under-Secretary, United States Navy Department.

\* Will obtain copies of a letter written January 26, 1946, by JAMES TERRY DUCE to another company official regarding expenses for 1946 and the allocation of all possible charges to that year. Inquiries should be made covering the nature and extent of the Arabian American Oil Company contracts for 1946 in order to determine to whom the latter referred in the phrase "the company might be embarrassed with people with whom it had contracts should its net be excessively high."

\* Will after  are received from the Bureau, prepare an ANALYSIS OF LEADS.

b7E

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Two copies of this report are being furnished to the San Francisco, New York, and Los Angeles Offices for their information in view of the fact that additional investigation may be requested of these respective offices at a later date.

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1

THIS CASE ORIGINATED AT **WASHINGTON, D. C.**

FILE NO. **46-1908**

|  |                                  |  |  |
|--|----------------------------------|--|--|
| REPORT MADE AT<br><b>WASHINGTON, D. C.</b> | DATE WHEN MADE<br><b>3-29-48</b> | PERIOD FOR WHICH MADE<br><b>2/3, 4, 12, 16, 20, 21, 23, 25-27, 3/16, 18/48</b> | REPORT MADE BY<br><b>J. BERNARD COOK (A)</b> JBC:ONS |
|--|----------------------------------|--|--|

|   |  |
|---|--|
| TITLE<br><b>UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS</b> | CHARACTER OF CASE<br><b>WAR FRAUD CLAIM - CIVIL SUIT</b> |
|---|--|

**SYNOPSIS OF FACTS:**

Copy of "Red Line Agreement" in possession of Petroleum Division, Department of State, Washington, D. C. Officials declined to furnish copy on theory that said document loaned to State Department by **STANDARD OIL COMPANY** on a confidential basis. Review of renegotiation files at Reconstruction Finance Corporation reflected **ARABIAN-AMERICAN OIL COMPANY** renegotiated for year 1945 only, which renegotiation resulted in clearance of this company on September 22, 1947. It was determined no excess profit had been received by **ARABIAN-AMERICAN OIL COMPANY** during 1945. Summary of income and surplus and balance sheets of **ARABIAN-AMERICAN OIL COMPANY** from 1936 to 1945 set out.

- P -

**REFERENCE:**

Bureau File **46-13326**  
 Report of Special Agent (A) **J. BERNARD COOK** dated February 6, 1948.  
 Bureau letters dated January 29th, February 10th, February 28th and March 3, 1948.  
 Letter from San Francisco to the Bureau dated February 15, 1948.

**DETAILS:**

**AT WASHINGTON, D. C.**

|  |   |
|--|---|
| APPROVED AND FORWARDED<br><br><i>[Signature]</i>   | DO NOT WRITE IN THESE SPACES<br><br><b>RECORDED</b> |
| COPIES OF THIS REPORT:<br>3 - Bureau<br>2 - Los Angeles (Info.)<br>2 - New York (Info.)<br>2 - San Francisco (Info.)<br>5 - <i>SAC</i><br>1 - <i>Field</i> | <i>[Handwritten notes and signature]</i>            |

*1cc Jackson - Hester*



WFO 46-1908

Captain E. L. WOODWARD, Judge Advocate General's Office, Navy Department, Washington, D. C., furnished the symbol numbers and names of the disbursing officers on the 14 contracts between the CALIFORNIA-TEXAS OIL COMPANY and the ARABIAN-AMERICAN OIL COMPANY and the United States Navy Department. At the present time the General Accounting Office, which has been furnished this information, is in the process of attempting to obtain certified copies of the original contracts, together with supporting vouchers and checks in payment thereof.

Captain WOODWARD furnished the following additional documents which he considered of possible interest in this case:

The following is a telegram dated May 8, 1944, from the Acting Secretary of the Navy indicating the importance of the one hundred octane program:

\*GD/KY

TELEPHONE KIT. 3281

FROM: ACTING SECRETARY TO: ALSTACON  
RELEASED BY: JAMES FURNERIAL MALLONAN  
DATE: 8 MAY 1944

D - A - LAMN (82131) REAM GR 66 BT

NEW RAS TANURA OIL REFINERY OF ARABIAN AMERICAN OIL COMPANY IS ESSENTIAL TO WAR EFFORT AND IS CONSIDERED BY NAVY OF SAME IMPORTANCE AS HUNDRED OCTANE PROGRAM. ALL HANDS ARE THEREFORE REQUESTED TO RENDER UTMOST COOPERATION WHEN REQUESTED BY OFFICERS OF ARMY NAVY PETROLEUM BOARD AND BUDGETS WHO ARE ASSISTING PETROLEUM ADMINISTRATOR FOR WAR WITH PROCUREMENT AND SCHEDULING OF MATERIALS, COMPONENTS AND CONSTRUCTION EQUIPMENT BY (82131)

DISTRIBUTION:

LISTS 6 (FOR 8, 9, 10) 7, 11 13 24  
(LESS ACTIVITIES OUTSIDE THE CONFIDENTIAL LIMITS U. S.)

ATTENTION

THIS IS THE ACTION COPY OF AN ORIGINAL TRANSMISSION BY DISPATCH MAIL I DELIVER TO RADIO ROOM.

AUTHENTICATED BY GD FOR NAVY DEPARTMENT COMMUNICATION WATCH OFFICER, DATE 8 MAY 22/44

WFO 46-1908

There is set out herewith a document containing the Panama Canal Dues, which was furnished to this office by Captain E. L. WOODYARD:

"PANAMA CANAL DUES

"Vessels are measured in accordance with regulations established by the Canal authorities.

"Based upon this measurement, a certificate is issued to the vessel indicating the vessel's tonnages, and canal dues are assessed and payable for each canal transit on the basis of the NET TONNAGE as shown by such certificate at rates established by the Canal Authorities from time to time and which are presently as follows:

VESSELS LOADED - EITHER DIRECTION

\$ .90 per Panama Canal Net Ton

VESSELS IN BALLAST - EITHER DIRECTION

\$ .72 per Panama Canal Net Ton

FOR EXAMPLE

"The estimated Panama Canal Net Tonnages of a T-2 Type E. P. Steam Turbine Tanker is 7400. This vessel is rated at 16,700 tons total deadweight, and 15,200 tons cargo deadweight.

"Canal dues on this vessel would therefore be:

|                                   |   |        |                 |
|-----------------------------------|---|--------|-----------------|
| LOADED 7400 Panama Canal Net Tons | x | \$ .90 | \$ 6,660.00     |
| BALLAST 7400 " " " " " "          | x | .72    | <u>5,328.00</u> |
|                                   |   |        | \$ 11,988.00    |

ESTIMATED COST PER BARREL AND PER TON FOR PANAMA CANAL DUES  
BASED ON FULL LOAD ONE WAY AND BALLAST RETURN

| Gravity<br>API | Bbls. Per<br>Ton | Total Cargo |        | Cost Per |        |
|----------------|------------------|-------------|--------|----------|--------|
|                |                  | Barrels     | Tons   | Bbl.     | Ton    |
| FUEL OIL 23.   | 6,993            | 106,300     | 15,200 | \$ .105  | \$ .79 |
| CRUDE " 35.    | 7,537            | 115,000     | 15,200 | .105     | .79    |
| DIESEL 37.5    | 7.65             | 116,300     | 15,200 | .10      | .79    |
| KEROSENE 46.   | 8.036            | 112,200     | 15,200 | .10      | .79    |
| GASOLINE 64.   | 8.852            | 110,000     | 14,700 | .09      | .815   |

Panama Canal is 44 miles long; has 3 lifts to total of 85 feet.

"COMPARATIVE TANKER COSTS

|                              | <u>Miles</u> | <u>Cost/Bbl.*</u> |
|------------------------------|--------------|-------------------|
| Ras Tanara to Singapore      | 3752         | \$ .186/bbl.      |
| " " " Manila                 | 5119         | .256              |
| " " " Shanghai               | 5962         | .298              |
| " " " Yokohama               | 6646         | .332              |
| " " " Guam                   | 6337         | .317              |
| " " " Sydney                 | 8058         | .403              |
| " " " Auckland, N. Z.        | 8743         | .436              |
| " " " Honolulu               | 9588         | .479              |
| Gulf Coast Area to Singapore | 11,698       | .685              |
| " " " " Manila               | 10,988       | .649              |
| " " " " Shanghai             | 10,168       | .608              |
| " " " " Yokohama             | 9,317        | .566              |
| " " " " Guam                 | 9,516        | .576              |
| " " " " Sydney               | 9,330        | .568              |
| " " " " Auckland, N. Z.      | 8,044        | .508              |
| " " " " Honolulu             | 6,335        | .417              |

\*Cost for operating modern tanker with foreign officers and crew June 9, 1945 = \$.00005/bbl. (approx) per mile.

(Per Oil & Gas Journal June 9, 1945)

\* Gulf Coast area figures include average cost of \$.10/bbl. Panama Canal Toll Charge."

Mr. ROBERT H. S. RAKES, Acting Chief, Petroleum Division, State Department, Washington, D. C., was contacted in an effort to obtain information concerning the so-called "Red Line Agreement." Mr. RAKES stated that he had a copy of the 1928 agreement which contained the 1921 Red Line Agreement, but he did not feel that a copy of this, which was in his possession, should be released, inasmuch as it was loaned to him by the STANDARD OIL COMPANY OF NEW JERSEY for the information of the State Department only, and was loaned on the condition that it was not to be released to any other individual or agency. Mr. RAKES, however, furnished the following information in a letter dated March 3, 1948, concerning the Red Line Agreement of 1921, together with any related documents.

"The 'self-denying provision', later to become known as the 'Red Line Agreement', had its origin in 1912 rather than in 1921. The 1912 and 1914 agreements among the interests making up the Turkish Petroleum Company, i. e. the D'Arcy interests, the Anglo-Saxon Petroleum Company, and the Deutsche Bank, contained the provision: "The three groups participating in the Turkish Petroleum Company shall give undertakings on their own behalf and on behalf of the companies associated with them not to be interested directly or indirectly in the production or manufacture of crude oil in the Ottoman Empire in Europe and Asia, except in that part which is under the administration of the Egyptian Government or of the Sheikh of Koweit, or in the "transferred territories" of the Turco-Persian frontier, otherwise than through the Turkish Petroleum Company."

"This provision was retained in the agreement concluded among the participants when the Near East Development Company, now owned equally by Standard Oil Company (New Jersey) and Socony-Vacuum Oil Company, Incorporated, was admitted in 1928. The original 1914 agreement may be found in the Department of State's publication "Foreign Relations of the United States" 1927 Volume II, page 821. Other pertinent data are included on pages 815-824."

It is to be noted above that reference is made by Mr. RAKINS to the State Department's publication "Foreign Relations of the United States," Volume 2, pages 816 to 824. There is set out herewith pages 816 to 818 referred to by Mr. RAKINS:

"The Associate General Counsel of the Standard Oil Company of New Jersey (Gay Wallman) to the Secretary of State

"New York, April 1, 1927.  
(Received April 11 (?).)

"Re: Iraq Petroleum Company, Ltd.  
(Formerly, Turkish Petroleum Company, Ltd.)

"Sir: Since our last communication or conference on behalf of the American Group with the Department on this matter there has been practically no progress made toward an agreed basis of participation by the American Group until within the last few days. The difficulty heretofore has been to arrive at any agreement with Mr. C. S. Galbenkian (83) under which his shares could be acquired and the so-called working agreement put into effect. In this connection

83. Naturalized British subject, a minority stockholder in the Turkish Petroleum Company, Ltd.

the American Group, despairing of reaching any agreement with Mr. Gulbenkian, reluctantly offered to the Royal Dutch, Anglo-Persian and French Groups to take up its participation in the Iraq Petroleum Company on a basis of 23 3/4% (one-quarter of 95%, leaving Mr. Gulbenkian his 5% participation) without the immediate and effective adoption of the working agreement, insofar as its provisions might conflict with Mr. Gulbenkian's interest as a beneficial shareholder, but with the collateral agreement that as soon as the working agreement could be put into effect through purchase of Mr. Gulbenkian's shares, or with his consent, the other groups should agree that this should be done. This attitude of the American Group was communicated, through its London Solicitor, Mr. Montagu Preece, to the other three groups on February 22nd last.

The American Group was advised by Colonel Marolier, of the French Group, on the 25th of that month that the French Group could obtain immediately Mr. Gulbenkian's acceptance of the working agreement on the following terms:

First: Mr. Gulbenkian, like the French Group, wants the other Iraq Petroleum Company shareholders to respect the informal agreements made between the Turkish Petroleum Company and the Deutsche Bank on October 19, 1912; between that company and the National Bank of Turkey on October 22, 1912; (84) and between that company and the Anglo-Saxon Petroleum Company, Limited, on October 23, 1912, (84) (copies of which are enclosed); and also the so-called Foreign Office Agreement of March 19, 1914, (of which a copy is also enclosed). The portion (of) these agreements in question is the self-denying ordinance embraced in the letters and in Article 10 of the last-named agreement.

Second: Mr. Gulbenkian wants a director in the Iraq Petroleum Company and its associated companies.

Third: He is willing to sign the working agreement with an arrangement for purchase of his share of the crude oil to be received under the working agreement on his 5% beneficial interest.

Fourth: He is to carry his financial interest and share in any financial benefits the same as the other shareholders.

One of the shareholding groups in the Iraq Petroleum Company had previously taken the position that this self-denying covenant was no longer effective. Accordingly, the corporation of the French Group, the Compagnie Francaise des Petroles, brought two proceedings in the British Courts against the other shareholders of the Iraq Petroleum Company to have these agreements of 1912 and 1914 above referred to, so far as they relate to the production and manufacture of crude oil through the Turkish Petroleum Company only, declared effective and binding.

"With this situation confronting it, the American Group, at a meeting held on March 9th, authorized Mr. Plesse to discuss the following basis for its participation:

"First: Leave status of the self-denying covenants to judicial determination or agreed settlement of the controversy on condition that all groups and Mr. Gulbenkian or none are bound, and that the self-denying covenant does not apply to outside areas under Article 6 of the Iraq Convention.

"Second: All the groups and Mr. Gulbenkian are to sign the working agreement.

"Third: Mr. Gulbenkian is to retain and finance his 7% beneficial share interest and receive 3% of the divisible crude oil and financial benefits on the same terms pro-rata as the groups.

"Fourth: The groups will arrange to purchase Mr. Gulbenkian's oil on some adequate price basis, or at his option he may dispose of it otherwise during each term of 10 years that he so elects.

"Fifth: All voting rights to be held by the four groups.

"This proposal was discussed informally by Mr. Plesse with representatives of the Anglo-Persian and Royal Dutch-Shell Groups, and the terms were acceptable to them. Thereupon, Sir John Colman, Chairman of the Board of the Anglo-Persian Oil Company, Ltd., and Mr. Plesse went to Paris a few days ago and discussed with the French Group and Mr. Gulbenkian the whole subject of the American Group's participation in the light of the existing circumstances. Out of that conference there comes an offer, in principle, for a 23 3/4% share participation in the Iraq Petroleum Company by the American Group, in which the Royal Dutch, Anglo-Persian and French Groups concur, on condition that the self-denying covenant of the 1912 and 1914 agreements shall be recognized by all shareholders of the Iraq Petroleum Company, and that in effect it covers not only the former Ottoman Empire, but also the areas which may be leased to such shareholders by the Iraq Government under Article 6 of the convention between the Turkish Petroleum Company, Limited, and the Government of Iraq, of March 14, 1925. (85) Thus any areas which any of the shareholders of the Iraq Petroleum Company may obtain under the operation of the so-called open door plan as embodied in this Article 6, would be operated for joint interest of all its shareholders who desire to take up their interest through either the Iraq Petroleum Company or a subsidiary formed for the purpose. The other details of this proposal to the American Group are generally within the terms of the one which it submitted on March 9th, above outlined, or are of a purely business character with which the Department need not be burdened.

85. Turkish Petroleum Company, Ltd., Convention With the Government of Iraq, Made the 14th Day of March, 1925; (London,) Hmsoll, Taylor & Co. (1925)).

The immediate purpose, therefore, in writing the Department at this time and at this length, is to post it generally as to the existing situation, and particularly to point out that it is apparently possible for the American Group now to take up its participation in the Iraq Petroleum Company, with effective, present, adoption of the working agreement, provided the Department has no objection to this lately-developed feature, regarding the self-denying ordinance. On this point it is the writer's thought that, if the American Group should take up its share participation under the condition of acceptance by it of the self-denying ordinance, there would not result any modification of the so-called open door plan adopted by the Iraq Petroleum Company under Article 6 of the Iraq Convention, because the plan would still be operative so far as all nationals, including American nationals, are concerned in respect to their right to submit bids for tracts or areas offered for sublease under that article. The only effect of the acceptance of this condition by the American Group would be that its bids for outside areas, and the development and operation of any such that may be secured on its bids, would be for the account of any shareholders of the Iraq Petroleum Company, including Mr. Galbenkian, who might desire to participate financially in such areas.

We desire to call the attention of the Department to the fact that in the previous consideration with the Department of the possible participation of the American Group as a shareholder in the Iraq Petroleum Company under the so-called open door plan, it has been understood that the American Group will be jointly associated with the other three groups with respect to the operation of the twenty-four areas to be selected by the Iraq Petroleum Company under Article 5 of the Iraq Convention, and also of any other areas that might fall to the Iraq Petroleum Company under the terms of the convention through failure of bidders for areas offered for sale. Thus the constituent members of the American Group might have acquired other areas for individual account and operated them as such. Under the pending proposal, including the self-denying ordinance, the American Group and its constituent members would be associated with the three foreign groups and Mr. Galbenkian in the joint operation of all areas available for operation by the Iraq Petroleum Company under this convention, and also such other areas under the Iraq Convention which the American Group and its constituent members and (the) other groups (of the Iraq Petroleum Company) as well, might acquire through public offering. This joint operation would relate also to the "production and manufacture" of crude oil in the former Ottoman Empire, as prescribed by the self-denying ordinance in the agreements of 1912 and 1914.

This will confirm the telephone explanation of Mr. Madisworth this morning of this situation, and our desire to receive, if possible, from the Department for use at a meeting of the American Group now called for next Tuesday afternoon, an expression as to whether or not the Department has any objection to a share participation by the American Group in the Iraq Petroleum Company which would involve, so far as the open door plan under Article 6 of the Iraq Convention is

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concerned, an acceptance by the American Group on its sole behalf of the self-denying ordinance of the agreements of 1912 and 1914 above referred to, along with all the other shareholders of the Iraq Petroleum Company. (86)

"Respectfully yours,

"GUY WELLMAN"

(Enclosure 1)

"The Deutsche Bank to the Turkish Petroleum Company, Ltd., London (87)

"Berlin, October 19, 1912.

"Dear Sirs: We hereby undertake that we will not directly or indirectly be interested in the production or manufacture of crude oil in the Turkish Empire in Europe and Asia apart from our interest in the Turkish Petroleum Company Ltd. It will however be understood that this obligation will in no case interfere with our ordinary banking transactions.

86. A notation in ink at the close of this letter reads:
- "Note: (1) At Mr. Harrison's suggestion, 4/5/27, I telephoned Mr. Wellman and asked if the addition of the above made pen inserts, 'and' ('the') and 'of the Iraq Petroleum Company', did not more accurately render the meaning of the phrase in question. He replied in the affirmative and agreed to the change in text.
- (2) In the telephone conversation referred to in the last paragraph of the above letter, I asked Mr. Wellman whether he was certain that the name of the Turkish Petroleum Co., Ltd., had actually been changed to 'Iraq Petroleum Co., Ltd.' He replied that such was the information he had received from Mr. Preece, the American Group's London solicitor. Today he stated that he had not been able definitely to verify his former statement and he asked that the Dept's reply take note of this fact.
- George Wadsworth  
HL-4/5/27."
87. Similar letters, dated, respectively, Oct. 22 and Oct. 23, 1912 (neither printed), were sent to the Turkish Petroleum Company, Ltd., by the National Bank of Turkey and the Anglo-Saxon Petroleum Company, Ltd.



"Furthermore it will be understood that all parties participating in the Company mentioned will be at liberty to import ~~oil~~ into Turkey and refine it there so long as the said Company has not found oil in Turkey in workable quantities, but that, if the Company begins working oil, it will then have the option of buying any refinery established thereby any of the parties at cost price less amortization.

Yours faithfully,

"DEUTSCHE BANK."

(Enclosure 2)

"Foreign Office Agreement, 1914

"Arrangements for Fusion of Interests in Turkish Petroleum Concessions of the d'Arcy Group and of the Turkish Petroleum Company

"It is agreed that the interests shall be divided as follows:

Fifty per cent to the d'Arcy group,  
Twenty-five per cent to the Deutsche Bank,  
Twenty-five per cent to the Anglo-Saxon Petroleum Company,

and that, in order to carry out this division,

"1. The shares in the Turkish Petroleum Company now held by The National Bank of Turkey shall be transferred in equal portions to the Deutsche Bank and the Anglo-Saxon Petroleum Company.

"2. The capital of the Turkish Petroleum Company shall be increased to £60,000 by the creation of 80,000 new shares of £1 each of the same class as those now existing.

"3. These 80,000 new shares shall be allotted to the d'Arcy group on terms to be agreed upon between the parties.

"4. The Board of the Company shall consist of eight members, of whom four will be nominated by the d'Arcy group, two by the Deutsche Bank, and two by the Anglo-Saxon Company.

"5. The capital of the Turkish Petroleum Company shall be employed only in exploring, working, and proving oil fields, a separate public company or companies being formed to work any field or fields the examination of which has proved satisfactory.

"6. Each working company or companies shall issue to the Turkish Petroleum Company the said ordinary shares as consideration for the properties to be acquired; such ordinary shares shall carry full control of the working company or companies, which control shall in no circumstances be parted with by the Turkish Petroleum Company.

"7. The working capital required by such working company or companies shall be raised by means of preference shares and (or) debentures which shall be offered to the public to such extent as the members of the Turkish Petroleum Company or any one of them shall elect not to subscribe for themselves.

"8. The alterations in the memorandum and (or) articles of association of the Turkish Petroleum Company necessary to carry out the above conditions shall be made forthwith.

"9. Mr. C. S. Galbenkian shall be entitled to a beneficiary five per cent interest without voting rights in the Turkish Petroleum Company, this five per cent being contributed equally by the d'Arcy group and the Anglo-Saxon Company out of their respective holdings. The shares representing Mr. Galbenkian's interest shall be registered in the names of nominees of the d'Arcy group and of the Anglo-Saxon Company, and shall be held by them, but undertakings shall be exchanged between these parties whereby

- (1) Mr. Galbenkian undertakes to pay the calls on the shares, and
- (2) The d'Arcy group and the Anglo-Saxon Company undertake that Mr. Galbenkian shall be entitled to all financial benefits of the shares.
- (3) If Mr. Galbenkian shall desire to dispose of this interest, and also in the event of his death, the d'Arcy group and the Anglo-Saxon Company shall have the option of purchasing the interests standing in their names as defined in Article 36 (b) of the articles of association of the Turkish Petroleum Company.

"10. The three groups participating in the Turkish Petroleum Company shall give undertakings on their own behalf and on behalf of the companies associated with them not to be interested directly or indirectly in the production or manufacture of crude oil in the Ottoman Empire in Europe and Asia, except in that part which is under the administration of the Egyptian Government or of the Sheikh of Kuwait, or in the "transferred territories" on the Turco-Persian frontier, otherwise than through the Turkish Petroleum Company.

For the Imperial German Government  
R. von Eshemann

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For His Britannic Majesty's Government:  
Kyrle A. Cross  
For the National Bank of Turkey  
R. Badington Smith  
For the Anglo-Saxon Petroleum Company, Ltd.  
H. Dordening  
Walter E. Samuel  
For the Deutsche Bank  
C. Bergmann  
For the Army Group  
C. Greenway  
H. S. Burgess.

London, 15 March, 1928.\*

890g.6361 : 3a/271

\* The Secretary of State to the Associate General Counsel of the Standard Oil Company of New Jersey (Ray Williams)

Washington, April 9, 1927.

SIR: The Department has received and read with interest your letter of April, 1927, regarding it of the American Group's recent negotiations with the stockholders of the Iraq Petroleum Company, Ltd. and of the result thereof. The Department understands from your letter, briefly, that the American Group is offered and, provided the Department raises no objection, will take up a 25 3/4% stock participation in the Company, the activities of which will be limited by the so-called "working agreement," it being at the same time provided that the present shareholders in the Company and the American Group, if and when it becomes a shareholder, and their commitment numbers, if any, will be bound by the self-denying provisions of the 1912 and 1924 agreements of which copies were enclosed with your letter under acknowledgment. The Department notes also your statement that the effect of this last provision, if adopted, would be to associate the American Group and its constituent members with the three foreign groups and Mr. Gulbenkian in the joint operation of all areas available for operation by the Iraq Petroleum Company under this arrangement, and also such other areas under the Iraq Convention which the American Group and its constituent members, and the other groups of the Iraq Petroleum Company as well, might acquire through public offering. The Department further notes that there would not result any modification of the so-called open door plan adopted by the Iraq Petroleum

Company under Article 6 of the Iraq Convention, because the plan would still be operative so far as all nationals, including American nationals, are concerned in respect to their right to submit bids for tracts or areas offered for sale under that Article.<sup>1</sup>

"In reply, I desire to express the Department's appreciation of your courtesy in thus bringing to its attention the most recent developments in this matter and to inform you that in the light of the information submitted it perceives no objection on the grounds of policy to the American Group taking up the proffered share participation in the Iraq Petroleum Company, Ltd., on the basis and understandings then recited. As you are aware, the Department does not of course in any way pass upon the business elements of the negotiations.

"I am pleased to add, in accordance with your oral request of April 6, 1927, that, if the name of the Turkish Petroleum Company, Limited, has not been changed to 'Iraq Petroleum Company, Limited,' you may make the necessary corrections in the foregoing paragraphs, informing the Department accordingly.

"I am (etc.)

For the Secretary of State:  
Wm. B. Castle, Jr.  
Assistant Secretary."

"(In April 1928 Mr. Wellman submitted to the Department the final (March 30, 1928) print of the proposed agreement between the Turkish Petroleum Company and its respective shareholders, and also the certificate of incorporation (dated February 3, 1928) and by-laws of the Near East Development Corporation, the American Group. In a letter to Mr. Wellman of April 16, 1928 (File No. 690g.6363 T 8a/320), the Chief of the Division of Near Eastern Affairs (SMB) stated:

"The Department has taken note of the contents of these two documents as well as of the Convention of March 24, 1927, between the Turkish Petroleum Company and the Government of Iraq.

"With reference to your inquiry on April 10, 1928, concerning the attitude of the Department of State, I take pleasure in informing you that, in the light of the information at hand, the Department considers that the arrangements contemplated in view of the special circumstances affecting the situation are consistent with the principles underlying the open door policy of the Government of the United States."<sup>1</sup>

Atlantic American Co. Account  
SUMMARY OF SALES AND PURCHASES  
Years 1926 to 1935 inclusive

|                                      | 1926 | 1927  | 1928    | 1929     | 1930     | 1931     | 1932     | 1933     | 1934     | 1935      | TOTAL   |
|--------------------------------------|------|-------|---------|----------|----------|----------|----------|----------|----------|-----------|---------|
| Sales - Domestic                     |      |       | 4923996 | 27697992 | 40051275 | 27634997 | 33064222 | 49990702 | 78639779 | 200520966 |         |
| Sales - Foreign                      |      |       |         | 2661222  | 1031117  |          |          |          |          |           |         |
| Total Sales                          |      |       | 4923996 | 28359214 | 40982392 | 27634997 | 33064222 | 49990702 | 78639779 | 200520966 |         |
| Cost of Sales                        |      |       | 3821266 | 16942291 | 24622512 | 21237170 | 27252192 | 24276221 | 29421872 | 95720097  |         |
| Gross Profit                         |      |       | 1102730 | 11416923 | 16359880 | 6407827  | 25738510 | 25714481 | 49217907 | 104800869 |         |
| Operating Expenses                   |      |       | 1056720 | 1194121  | 2002222  | 757175   | 1619222  | 2015172  | 2000000  | 1000000   |         |
| Income Before Tax                    |      |       | 40000   | 9525702  | 14337658 | 5836052  | 19546288 | 23562709 | 29217907 | 94800869  |         |
| Tax                                  |      |       |         |          |          |          |          |          |          | 1000000   |         |
| Net Income                           |      |       | 40000   | 9525702  | 14337658 | 5836052  | 19546288 | 23562709 | 29217907 | 84800869  |         |
| <b>Total</b>                         |      |       | 4923996 | 28359214 | 40982392 | 27634997 | 33064222 | 49990702 | 78639779 | 200520966 |         |
| <b>Statement of Assets - Summary</b> |      |       |         |          |          |          |          |          |          |           |         |
| Assets - Current                     |      | 19072 | 2000000 | 40000    | 7723000  | 10745000 | 7136000  | 7066000  | 7066000  | 7066000   | 7066000 |
| Assets - Fixed                       |      |       |         |          |          | 36000    | 1968000  | 1972000  | 2500000  |           |         |
| Assets - Deferred                    |      |       |         |          |          | 1151000  | 380000   |          |          |           |         |
| Assets - Other                       |      |       |         |          |          | 46000    | 32000    |          |          |           |         |
| Assets - Total                       |      | 19072 | 2000000 | 40000    | 7723000  | 10745000 | 7136000  | 7066000  | 7066000  | 7066000   | 7066000 |
| <b>Total</b>                         |      | 19072 | 2000000 | 40000    | 7723000  | 10745000 | 7136000  | 7066000  | 7066000  | 7066000   | 7066000 |

Annual Report  
 1945  
 As of December 31st, 1945

| Assets                              | 1941     | 1942     | 1943     | 1944      | 1945      |
|-------------------------------------|----------|----------|----------|-----------|-----------|
| <b>CASH</b>                         | 4,777.32 | 1,177.27 | 7,477.11 | 11,777.32 | 20,777.45 |
| Due from "UNITED STATES GOVERNMENT" |          |          |          |           | 2,777.32  |
| RECEIVABLES                         | 1,777.32 | 1,777.32 | 1,777.32 | 1,777.32  | 1,777.32  |
| INVENTORY                           | 1,777.32 | 1,777.32 | 1,777.32 | 1,777.32  | 1,777.32  |
| <b>Fixed Assets</b>                 | 1,777.32 | 1,777.32 | 1,777.32 | 1,777.32  | 1,777.32  |
| PROPERTY                            | 1,777.32 | 1,777.32 | 1,777.32 | 1,777.32  | 1,777.32  |
| DEPRECIATION                        |          |          |          |           |           |
| <b>Other Assets</b>                 |          |          |          |           |           |
| Due from "UNITED STATES GOVERNMENT" |          |          |          |           | 1,777.32  |
| RECEIVABLES                         |          |          |          |           | 1,777.32  |
| INVENTORY                           |          |          |          |           | 1,777.32  |
| <b>LIABILITIES AND EQUITY</b>       |          |          |          |           |           |
| LIABILITIES                         |          |          |          |           |           |
| Due to "UNITED STATES GOVERNMENT"   |          |          |          |           | 1,777.32  |
| RECEIVABLES                         |          |          |          |           | 1,777.32  |
| INVENTORY                           |          |          |          |           | 1,777.32  |
| <b>EQUITY</b>                       |          |          |          |           |           |
| Capital                             |          |          |          |           |           |
| Reserves                            |          |          |          |           |           |
| <b>Total</b>                        |          |          |          |           |           |

Mr. CHARLES WEE, General Counsel, Price Adjustment Board, Reconstruction Finance Corporation, turned over the file concerning the renegotiation of the ARABIAN-AMERICAN OIL COMPANY for the year 1945 for review. This file indicated that on March 31, 1947, this renegotiation was assigned to the Reconstruction Finance Corporation, which renegotiation was to cover the year 1945. The only contract subject to renegotiation was Contract Number WFEI-12927, and the total amount of products subject to renegotiation amounted to \$3,763,935.00. Contract Number WFEI-LI-10985 covered only crude oil for delivery in 1945 and consequently was not subject to renegotiation.

On May 27, 1947, Mr. KENNETH L. STONE, Cost Analyst for the Reconstruction Finance Corporation, reported in a memorandum included in this file the following purchases made by the United States Navy from the ARABIAN-AMERICAN OIL COMPANY in 1945:

|                      | Contract<br>Bbls | Delivery<br>Bbls | Price per<br>Bbl | Total                 |
|----------------------|------------------|------------------|------------------|-----------------------|
| 80 Octane Gasoline   | 411,000          | 256,331          | 2.73             | \$ 699,782.89         |
| Navy Diesel Fuel Oil | 922,288          | 577,069          | 1.68             | 1,171,076.22          |
| Navy Spec. Fuel Oil  | 1,440,200        | 243              | 1.05             | 1,174,154.74          |
|                      |                  |                  |                  | <u>\$3,045,013.85</u> |

Included in this file was a statement of salaries paid or accrued to the ten highest paid officers, directors and employees of the ARABIAN-AMERICAN OIL COMPANY from 1942 to 1945.

| Name   | 1945        | 1944        | 1943        | 1942        |
|--|-------------|-------------|-------------|-------------|
| F. A. Davies - President   | \$32,083.34 | \$28,749.96 | \$25,000.00 | \$20,000.00 |
| J. MacPherson - V. President                                     | 22,298.36   | 20,000.00   | 20,000.00   | 18,000.00   |
| J. T. Duce " "   | 22,083.29   | 20,000.00   | 12,479.17   | 11,062.50   |
| A. M. Martin " "   | 18,000.00   | 16,500.00   | -           | -           |
| F. W. Ohliger, General Manager                                   | 16,200.00   | 16,286.55   | 14,400.00   | 13,202.55   |
| V. T. Stapleton, Manager -<br>Refinery                           | 15,025.00   | 12,141.53   | -           | -           |
| J. C. Stirtan, Chief Engineer                                    | 13,000.00   | 13,750.00   | -           | -           |
| H. G. Dunham, Manager - Sales                                    | 14,375.00   | -           | -           | -           |
| H. E. Phelps, Senior Surgeon                                     | 12,000.00   | 7,548.39    | -           | -           |
| P. C. McConnell, Assistant<br>Manager - Production<br>Department | 11,383.53   | 10,128.71   | 8,854.84    | 9,600.00    |

WFO 46-1908

This file reflected that on September 22, 1947, the ARABIAN-AMERICAN OIL COMPANY received a clearance number 916 based on the finding that "no excessive profits have been received by or accrued to the contractor during contractor's fiscal year ending December 31, 1945.

It appears from this file that a price of \$1.02 per 42 gallon barrel of crude oil was established by agreement with the BANIFIN PETROLEUM COMPANY, LTD. on September 1, 1942.

The ARABIAN-AMERICAN OIL COMPANY was not renegotiated for any year other than 1945.

There is set forth herewith a summary of income and surplus statements and the balance sheets of the ARABIAN-AMERICAN OIL COMPANY from 1936 to 1945, which figures were compiled from a review of the renegotiation file of the Reconstruction Finance Corporation.

- PENDING -



THE WASHINGTON FIELD DIVISION

AT WASHINGTON, D. C.:

Will endeavor to obtain photostatic copies of the fourteen original contracts between the CALIFORNIA-TEXAS OIL COMPANY, THE ARABIAN-AMERICAN OIL COMPANY and the United States Navy from the General Accounting Office.

Will ascertain the history and past and present associates of FRANK M. REINHOLD and M. VICAR, former employees of the Office of the Undersecretary, United States Navy Department, and EDWARD TAAFFE, a former employee of the War Production Board.

• Will obtain copies of a letter written January 26, 1946, by JAMES HENRY DUCK to another company official regarding expenses for 1946 and the allocation of all possible charges to that year. Inquiries should be made covering the nature and extent of the Arabian American Oil Company contracts for 1946 in order to determine to whom the letter referred in the phrase "the company might be embarrassed with people with whom it had contracts should its not be excessively high."

• Will after  are received from the Bureau, prepare an analysis of same.

b7E

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Two copies of this report are being furnished to the San Francisco, New York and Los Angeles Divisions for their information, in view of the fact that additional investigation may be requested of these respective offices.

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1

THIS CASE ORIGINATED AT

WASHINGTON FIELD

NY FILE NO. 46-2016 md

|                                   |                                  |   |  |
|-----------------------------------|----------------------------------|---|--|
| REPORT MADE AT<br><b>NEW YORK</b> | DATE WHEN MADE<br><b>2-24-48</b> | PERIOD FOR WHICH MADE<br><b>1/30; 2/3, 9, 13/48</b> | REPORT MADE BY<br><b>WILLIAM A. HALPIN (A)</b> |
|-----------------------------------|----------------------------------|---|--|

|   |  |
|---|--|
| TITLE<br><b>UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS</b> | CHARACTER OF CASE<br><b>WAR FRAUD CLAIM<br/>CIVIL SUIT</b> |
|---|--|

**SYNOPSIS OF FACTS:**

Statement obtained from MAC KILLIE and set out herein, in which he outlines his part in negotiating contract #W5KX-11-10985 with Arabian American Oil Co. and states DEWHAM, Aramco representative, in course of negotiations, advised royalty of 21¢ per barrel might be doubled. MAC KILLIE furnished copy of letter he wrote and delivered to Navy Dept. on 12-11-47 in explanation of his part in negotiating Aramco contract in question. Letter set out. BENEHART, MC VICKER and TATE identified by MAC KILLIE as REINHOLD, MC VICAR, and TAAFFE. Copy of Bahrain Anglo-Iranian agreement obtained from E. V. HERRON set out herein.

NO STATISTICS

46  
 59  
 AM  
 46  
 DIRECTOR

Bureau file #46-13326.  
 Report SA(A) JOHN B. COOK, 1-7-48, Washington, D.C.  
 Report SA(A) J. HERNARD COOK, 2-6-48, Washington, D.C.  
 Bureau letter to Washington Field, 1-29-48.

HANDLED  
 STOP

**DETAILS:**

On January 30, 1948 ALLAN A. MAC KILLIE, Manager, National Sales Department, Shell Oil Company, was interviewed in his office, room 3834, 30 Rockefeller Plaza, at which time he made the following voluntary statement which, it will be noted, is dated February 2, 1948, this being the date on which the typing of the statement was completed.

|  |                         |                              |
|--|-------------------------|------------------------------|
| APPROVED AND FORWARDED<br><i>Edward J. [Signature]</i> | SPECIAL AGENT IN CHARGE | DO NOT WRITE IN THESE SPACES |
|--|-------------------------|------------------------------|

46-13326-14

RECORDED

|  |                    |       |
|--|--------------------|-------|
| COPIES OF THIS REPORT:<br>3 - Bureau<br>3 - Washington Field (46-13326) (Enc. 3)<br>2 - New York | 31 FEB 1948<br>FBI | 11 23 |
|--|--------------------|-------|

NY 46-2016

"I, Allan A. MacEille, make the following voluntary statement to William A. Halpin, Special Agent of the Federal Bureau of Investigation:

"I served in the United States Navy from July 16, 1942, to September 10, 1945, at which time I was separated with the rank of Commander. In the Navy my position was Officer in Charge, Petroleum Purchase Section, Bureau of Supplies and Accounts, and as such it was my duty to negotiate contracts for the purchase of petroleum products, but I had no authority to give the final O.K. on a price or to finalize a contract. The procedure for negotiating and awarding contracts for the purchase of petroleum products was as follows:

"The Purchase Section was handed a Requisition to purchase a particular product in a definite quantity by the Fuel Division of the Bureau of Supplies and Accounts, whose function was to instruct the Purchase Section as to what fuel was to be purchased and at what time.

"The Fuel Division, therefore, dealt with requirements and the scheduling of shipments and had nothing to do with the negotiation of prices.

"When a requisition was received by the Purchase Section from the Fuel Division, it was then the function of the Purchase Section to negotiate with the designated contractor to establish what price would be recommended for contracting purposes.

"At the conclusion of the negotiation, a Clearance paper was then prepared by the Purchase Section giving all available information surrounding the results of the negotiation, and a copy of that paper was immediately sent to the Petroleum Policy Branch of W.P.E. for their study and for their approval, which they gave to the Office of the Under-Secretary of the Navy.

"The original of the Clearance went directly to the Under-Secretary's office where it was reviewed by a group of civilians headed by a Mr. McVicar, who, in turn, consulted with the W.P.E. Petroleum Representative, who was at that time, Mr. Edward Taffe.

"After these gentlemen were satisfied that the Purchase Section of the Navy had done everything possible to secure the best price for the Government, formal approval was then given in writing and the approval sent to the Bureau of Supplies and Accounts, prior to the actual writing of the contract papers.

"At no time did the Petroleum Purchasing Section of the Navy determine the quantities of oil to be purchased, and there was very seldom any choice as

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"to what company would supply the product needed. In the case of large quantities of gasolines, fuel oils and crude oils, the Fuel Division specified in writing to the Purchase Section exactly what to buy and from what company at what time.

"Before the Fuel Division prepared Requisitions to be passed on to the Purchase Section, they obtained their knowledge of what oil was needed and in what quantity either through the Army-Navy Petroleum Board or directly from P.A.W. The Army-Navy Petroleum Board was the clearing house or point of contact between the Service Forces and the Bureau of Supplies and Accounts. In all cases, the P.A.W. Agency was the originator of where quantities of oil would be made available by their direction under their specific authority so that the Navy Department was informed by P.A.W. as to every detail of the negotiation with each supplier, with the exception of the price to be paid. In other words, through detailed knowledge of all refining equipment in this country and abroad, P.A.W. could and did arrange with the refineries as to what products each one was to make and in what quantity for military use. Then they would pass on to the Fuel Division of the Navy the exact name of each supplier to be dealt with, the exact quantity of product to be produced, and when it would be available. Therefore, it followed that the Purchase Section of the Navy Department made contracts with those contractors specified by the P.A.W. Agency, through the Fuel Division.

The following information is given in explanation of my part in negotiating Contract No. N56x-LL-10985, dated July 6, 1945, with the Arabian American Oil Company.

"The negotiations for this contract were initiated in the usual manner. In other words, as described above, and began in the middle of June, 1945, to the best of my recollection. My first contact in connection with this contract was with the representative of the Arabian American Oil Company, Mr. Dunham, who was the Sales Manager. On this first contact, Mr. Dunham quoted a price of \$1.05 per barrel. Subsequent to this, I conferred with Mr. Dunham on about five or six occasions relative to negotiating this contract. During these conferences, on some occasions, Lieutenant D. E. Bodenschatz and Lieutenant J. J. Walsh were present.

"In an effort to find all possible historical data which might assist us in determining whether or not \$1.05 per barrel represented a fair price to Government, I sent Lt. Bodenschatz to the offices of P.A.W. to study their records

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In connection with the P.A.W. costing of 100-octane aviation gasoline purchased by the D.S.C. in 1943 in the Persian Gulf. As indicated by Lt. Bodenschatz in the Justification contained in the Clearance Paper in connection with Contract No. H5ax-11-10985, we did not find that P.A.W. and the contractor had reached any agreement as to the proper value of Arabian Crude, and P.A.W., in fact, were in disagreement with the contractor and for the purposes of the 1943 D.S.C. contract, they sidestepped the issue of crude as such, and it was conceded that the price eventually reached for 100-octane gasoline was not traceable to crude oil. Since, naturally, there were no O.P.A. regulations applicable to oil sold in Arabia and no precedent established by the Armed Services or any other Governmental Agency for buying crude oil out of Saudi Arabia, there was no further searching that we could do. The contractor based his \$1.05 per barrel price on the established United States Gulf market for comparable crude oil, which price was established by O.P.A. I did not know nor could I prove that the \$1.05 price was excessive, but I thought that it might be possible for this company to reduce its original quotation and offer Navy a lesser price. I, therefore, had the several conversations with Mr. Denham and other members of his firm during which I requested them to review their costs with a view to revising the price downward, and I inquired as to available cost data which might be submitted to Navy as justification for their fixing of the price at \$1.05. To the best of my recollection, they replied that the picture in Arabia was very confused, that they had had to pour additional millions into that country in the course of getting the fields into production, and that there was no pertinent information they could give, other than that already submitted to P.A.W. in connection with the D.S.C. contract of 1943. The contractor in the person of Mr. Denham, throughout our discussions, maintained that the price quoted was a fair return to them for the product in question and that no revision could be made.

"In the course of negotiating with Mr. Denham, he told me that one reason that they could not reduce the price was because the royalty payment of 21 cents per barrel being made to the King of Arabia might be doubled and might be made to act retroactively. He explained that the doubling of royalty might come about because the Arabian King was then demanding that he be paid in gold Sovereigns, Arabia, rather than in Pounds, Sterling, London. The difference in computing the royalty on the basis desired by the king and that actually in effect would automatically just about double the size of the payment. I did not consider the question of royalty payments a controlling factor in the negotiation since no matter what the amount of the royalty at any time, it was for the account of the contractor and not for payment by Navy in any form.

"Failing to secure any change in the original quotation through Mr. Danhan, I took the opportunity while in San Francisco on other Navy business, to visit Mr. Fred Davies, President of Arabian American Oil Company, and I strongly urged him to consider reducing their price. Mr. Davies replied that that would not be possible, that he considered the price entirely fair to Government and that Mr. Danhan was fully authorized to conduct and conclude the negotiation. Shortly after that visit I returned to Washington. I verbally gave Lt. Bodenschatz what little information we had regarding this negotiation and justification so that the crude oil involved could be made available to the Navy Department as I understood clearly from Captain A. W. Rutter of the Fuel Division that the matter of acquiring this crude was not only a military necessity, but was urgently needed for refining at rehabilitated French refineries at Marseille, since our Armed Forces in Europe required this new source of petroleum to relieve the shortage of products vitally needed in the Pacific theater of war. The military necessity of procuring this crude oil was also pointed out to me by Admiral Horace D. Baber, Assistant Chief of Bureau of Supplies and Accounts, and he inquired as to what progress we were making in concluding the negotiation, at the same time indicating to me that it was a matter which should be attended to and expedited as much as possible.

"On my return from San Francisco, I was handed a set of Travel Orders dated August 3, 1945, directing me to report to the Commandant of the Naval establishment at the Canal Zone, for special duty in connection with petroleum matters in several South American countries. There was, therefore, no further action on my part in connection with the Arabian oil contract, or any other contract, since a suitable replacement had been found for me, and I was engaged entirely in making preparations to leave the country.

"Before my release from active duty with the Petroleum Purchase Section, I discussed the Arabian American negotiation with Lt. Bodenschatz, told him of my unsuccessful visit at San Francisco and told him to proceed from notes he had taken during the entire course of the negotiation, including his work at the offices of P.A.S. and directed him to send the Clearance papers to the Under-Secretary's office for approval.

"I did not have any part in the negotiation of any contracts with other oil companies operating in the Persian Gulf area, nor did I know of any such contracts having been made by Navy or other branches of Government. The contract in question and referred to above by number is the only Arabian American Oil Company contract with which I have ever had anything to do.

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"Although during my service with the Navy there were a few contracts made with the California Texas Company for fuel oil and gasoline out of the refinery at Bahrain, I did not personally take part in those negotiations. The negotiations were handled by Lt. John J. Walsh assisted by Lt. D. E. Bodenschatz, and the contractor was represented by Mr. Beverly, a Vice President of the California Texas Company.

S/ Allan A. Mac Krille

"Witness:

William A. Halpin, Special Agent, F.B.I., New York City

"February 2, 1948"

The original of the above statement is being forwarded to the Washington Field office with copies of this report. MAC KRILLE advised that in order to avoid any misunderstanding of the third and fourth paragraphs from the last in the above statement, he wanted it understood that although upon his return from San Francisco he was handed a set of orders dated August 3, 1945 (4th paragraph from last in statement) and he, thereafter, took no further active part in negotiating the contract in question. He did, thereafter, discuss the Aramco contract with Lt. Bodenschatz and then did direct the latter to prepare and send the Clearance papers to the Under-Secretary's office for approval. He maintained, however, that he had nothing further to do with the contract after directing BODENSCHATZ to prepare the Clearance papers.

During the course of the interview, MAC KRILLE voluntarily turned over to the writer a copy of an undated letter prepared by him and addressed to Admiral BUCK, Bureau of Supplies and Accounts, Navy Department. According to MAC KRILLE, this letter was prepared by him at the request of Admiral BUCK in explanation of his, MAC KRILLE's, part in negotiating contract NSAC-11-10985 and was delivered personally by MAC KRILLE to Admiral BUCK on December 11, 1947. In turning this letter over to the writer, MAC KRILLE remarked that he felt that the F.B.I. would have access to all official Navy papers and he felt that he could volunteer this letter without violating any Navy regulations or confidences.

This letter is set out as follows and the copy received from MAC KRILLE is being transmitted herewith to the Washington Field Office.

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Navy Department  
Bureau of Supplies and Accounts

My dear Admiral Buck:

"In response to your letter of 26 November, 1947, the following comments are submitted in clarification of the justification for the clearance in connection with contract N5ax-LL-10985 with the Arabian-American Oil Company, which was negotiated partly by myself while on active duty with your Bureau.

"In offering the following remarks, I have particularly taken cognizance of certain inconsistencies in the testimony which developed during the hearing conducted by Senator Brewster of the Special Committee Investigating the National Defense Program.

1. The committee took the view that in the costing of aviation gasoline as expressed in PAN's 'Memorandum of Recommendation' in connection with a contract with the Bahrain Petroleum Company, dated 9 March, 1943, that the PAN calculation of 84 cents per barrel for Arabian crude established the correct basis for the sale of crude as such to the Navy Department in 1945. I did not in 1945 nor do I today think that the calculation or estimate used in the formulation of a price for finished aviation gasoline fairly represents the value of or the fair market price for such crude oil. In this connection I refer you to attachment to Mr. H. M. Herron's letter to PAN, dated January 28, 1943, showing the estimated yield from both Arabian and Texas crudes.

"In connection with the above, I should like to point out that the supporting documents attached to your letter quite clearly illustrate the point in question. For instance, in the Navy Department justification for clearance No. 12412 on page 3, final paragraph, we find the following statement with respect to the difference of opinion between PAN and Bahrain:

"After several months negotiation, a compromise was reached which in fact sidestepped the issue of crude valuation by agreement between the parties to increase another cost factor (contingencies) etc."

"Also on page 4 of the same clearance, we find:



'In discussing the foregoing with contractor and PAV, neither will admit a change in their respective original prices on crude oil valuation and state that the concessions made by each, in finally agreeing on a price of 0.1375 for the gasoline were not traceable to crude oil.'

Again on page 4, the same clearance in item 4, the contracting officers illustrated that the net reduction in the total price requested by Bahrain vs. the total approved by PAV is only 0.00357 cents per gallon. In other words, Bahrain adhered to their costing at Arabian wells of \$1.02 per barrel for crude plus pumping charges and loading at Seebard and although PAV did not entirely agree with Arabian method of costing, they finally circumvented the crude issue by allowing abnormal contingencies covered with payments made in the United States. The contingency made to seahere this was about 2% less the average allowed in this country.

Enclosure B - extracted pages from PAV's 'Memorandum of Recommendation' clearly shows the uncertainty and the difficulty encountered in their efforts to place a value on Arabian crude. On page 1 of Enclosure B, Paragraph 4, PAV states 'that the problem is complicated by the fact that there is no competitive market for this Arabian crude at the present time.' In paragraph 5, it is stated: 'We have accepted the "posted" prices on crude as a proper evaluation since in the case of domestic crude oils such "posted" prices have become criteria of value.'

In paragraph 5 of the same Enclosure, it is stated: 'In the case of Arabian crude, there is no reasonable equivalent of the "posted" price and Bahrain Petroleum Company has taken and adhered to the provision that this Arabian crude must be evaluated by reference to the "posted" prices of domestic crude oils.'

As in 1943, in connection with the Bahrain contract, the contractor again adhered to the U.S. Gulf market pricing for crude when he quoted Navy on crude as such in July 1945 as required under contract W53-11-30985.

The negotiating the contract in question, I did not feel that the case or two cargoes sold to the Japanese prior to the war at 70 cents

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"per barrel FAS the Arabian Coast constituted an adequate index to the market value for the same crude in July 1945. On page 6 of Paragraph 2 of Enclosure B we find that PAN agrees with this viewpoint in connection with the Bahrain contract, nor did I feel that 86 cents per barrel price constituted an index of present market value since again this was prior to the war, no contract was ever made or any oil sold at that figure and because the contractor went on record to say that since the 86 cent pricing was made it was found necessary to make large advances to the king of Arabia.

"In attempting to analyze whether or not the Arabian-American Oil Company had offered Navy a fair and reasonable price in July 1945, it is apparent that Government had very little historical data to examine and that a good part of it was doubtful and questionable as evidenced by the disagreement between PAN and the contractor in the case of the earlier Bahrain contract.

"As recorded in the testimony before the Brewster Committee, I could not prove nor did I know that the price of \$1.05 per barrel was unfair to Government but I thought that a lower price could and should be offered. With this in mind and over a long period of time, I repeatedly requested the contractor to review his offer with a thought to revising his price downward. I furthermore requested that he submit cost data to substantiate his price but the contractor stated that it was impossible to comply since they had no costing information available other than that already submitted to PAN in connection with the Bahrain contract in 1943.

"During the investigation by the Brewster Committee, I was informed by the Committee that shortly after Contract #5ax-II-10985 was entered into by Navy, that Arabian-American Oil made a sale of the same crude to the French Government at a price of 85 cents per barrel. I had never heard of that transaction prior to the hearing. In response to questioning by the Committee, I agreed that had I known about the sale to the French when we were negotiating the United States Navy contract, it would definitely have affected my opinion and my course of action as to the negotiation. I would have taken the view that insignificant spot sales made prior to the war and during the early days of operations in Arabia were one thing and sales made at nearly the same time as that made to Navy in 1945 quite another matter. I would have felt that Navy was in a clear position to demand that contractor offer the same price to the United States Government as they had to a foreign government.

- "2. The question of royalty payment to the King of Arabia was greatly stressed by the Committee, largely because of the statement appearing in clearance No. 12412, page 2 (6) which reads: '...particularly since current royalties to the King of Arabia are now totalling approximately \$.42 per barrel as compared to the former \$.21 per barrel applicable during the period of negotiations of the DSC contract'.

"As I informed the Committee, this statement is entirely incorrect. Either Lt. Bodenschats misunderstood the rather complicated details of the royalty question as I gave it to him verbally or I failed to make the point in question quite clear to him.

"The contractor represented to me that the payment of royalty to the King of Arabia had been and at that time was under dispute, that it figured to \$.21 per barrel as computed on the basis of pounds Sterling, London, but if computed on the basis desired by King, i.e., in gold sovereigns, Arabia, it would then be doubled, or \$.42 per barrel. Contractor stated that for this reason the royalty might double and it might be retroactively applied. He stated in addition that there might be further increases demanded by the King and considerable pressure was being brought to bear on Arabian-American to that end.

"I recall this question of royalties quite clearly, as I recall other details of this negotiation, because of the unusual nature of the transaction. It was the first and only negotiation with Arabian-American; there was no OPA control applicable, no possible renegotiation, no comparable competitive background on record and never before had I discussed royalties with a contractor expressed in foreign currency.

"As part of the negotiations I did not attach controlling importance to the royalty payment. I know that the average royalty in this country would be \$0.125 per barrel and I was not surprised to learn that it was \$.21 in Arabia. It was clear that the payment of royalty would be for the account of the contractor, whether \$.21 or double that amount.

"In connection with the Bahrain contract there is a statement as to the royalty referred to (Enclosure (b) Page 7, Paragraph 2) which reads: 'The Bahrain Petroleum Company puts particular emphasis

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"Upon the fact that costs may rise due to demands for increased royalty payments by the King of Arabia, and, as pointed out above, past history would appear to support the contention that this is a very real possibility. At the present time the Arabian government contends that the established royalty rate of \$.21 per barrel should be approximately doubled as the result of its position that royalties should be paid in "Sovereign pounds".

"It appears to me that this statement contained in the PAN 1943 files is significant. It establishes that contractor did not approach Navy in 1945 with this question of royalty as a new idea and designed to persuade the contracting officer of increasing costs in their production of crude oil.

"3. The question was raised by the Committee as to whether or not I had reviewed the justification for Contract W50N-11-10985, as prepared in its final form by Lt. Bodenschatz. To the best of my recollection I did not do so. If I had, I am certain that I would have noticed the statement made in error concerning the payment of royalty to the King of Arabia.

"In the course of processing some two hundred contracts per month for petroleum products it was not unusual for me to conclude negotiations with the contractor, or review negotiations conducted by officers under my command and to then leave the completion of documents and other mechanical details in their hands. As a matter of fact, it would have been physically impossible for me to personally review every documentation in detail as it was part of my duty not only to negotiate with contractors, but on behalf of Navy to constantly attend meetings with other Navy Departments, with the War Department, with Governmental Agencies, such as PAN, WPA, OPA, Lend-Lease authorities and other groups interested in our supply and procurement of petroleum.

"An added reason why it is most unlikely that I did see this paper in its finished form is that I was officially detached from the Bureau of Supplies and Accounts, through orders dated 3 August, 1945, which directed me to proceed to South America on special assignment for the Navy Department. I was given notice of the issuance of such orders by telephone while still in San Francisco where I had gone to, among other things, interview Mr. Fred Davies, President of the Arabian American Oil Company. Since this justification refers, on page 2 (b), to my discussion with Mr. Davies, it is obvious

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"that Clearance No. 12412 was prepared in final form after I had returned to Washington and subsequent to my official transfer to other duties. I distinctly recall that immediately upon my return I was busily engaged in preparing for my new tour of duty, in other words, going through physical examination, picking up my pay account and taking all the usual necessary steps which pertain to a change of duty.

"Although the Clearance papers are dated the 21st of July, it does not necessarily follow that the negotiation of the case was consummated on that date. It was quite usual for papers to be dated to accommodate scheduled movement of tankers so that the contractor would be covered by contract and could be paid under Navy procedure in the event that such a contract was eventually accepted and executed by Government.

s/ A. A. MAC KILLIE

MAC KILLIE furnished the following information about certain individuals mentioned in referenced reports: A MC VICAR (not MC VICKOFF) was an employee of the Navy Department in the office of the Under-Secretary. The individual mentioned as TATE is believed by MAC KILLIE to be EDWARD TAAFFE, who was formerly employed by the War Production Board and to the best of MAC KILLIE's knowledge, still resides in Washington, D.C. The man mentioned as EBENHART is thought by MAC KILLIE to be FRANK N. REINHOLD, who was an assistant to MC VICAR in the Under-Secretary's office, and who is presently employed as Purchasing Agent by the Connecticut Light & Power Company at the Waterbury, Connecticut plant. He advised that his only contact with PARKHURST and JANE, P.A.W. employees, in connection with the contract in question was when he contacted them for historical data regarding prices of Arabian crude so that he could use this as a basis of comparison with the price quoted by Aranco. He stated that these two men had some of their subordinates dig up what information they could and this was reviewed by BOENSCHATZ and used by him, BOENSCHATZ, in preparing the "justification" for the contract. MAC KILLIE stated that he could not recall having discussed contract W5ax-11-10985 particularly with MC VICAR, REINHOLD or FITZGERALD, all of the Under-Secretary's office. He stated that he probably had some routine telephone calls from these men regarding this contract as he did on all contracts, but that nothing unusual transpired, nor could he recall any particular contact or discussion with TAAFFE about this contract. He stated that it was TAAFFE's job to review the contract on behalf of W.P.B. and discuss it with MC VICAR of the Under-Secretary's office.

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On February 9, 1942 H. M. HERRON, Chairman of the Board, Bahrain Petroleum Company, Ltd., was interviewed in his office at 551 5th Avenue, New York City, in the presence of VAN DUSEN, General Counsel for that company. At that time Mr. HERRON advised that the only agreement entered into by Bahrain and the Anglo-Iranian Oil Company, Ltd. relative to wartime operations was one, a copy of which he had furnished Senator BREWSTER on November 1, 1941 when he, HERRON, testified before the Special Committee to investigate the National Defense program. Mr. VAN DUSEN noted that the agreement is included as a part of exhibit #17 introduced in the record by Chairman BREWSTER on page 803.

A typewritten copy of the agreement and the letter dated August 19, 1942 with which the agreement was enclosed to HERRON by B. R. JACKSON, Representative of the Anglo-Iranian Oil Company, Ltd. was obtained and is set out as follows:

Mr. H. M. Herron  
The Bahrain Petroleum Co., Ltd.  
130 East 43rd Street  
New York, New York

Dear Howard:

"I send you herewith a note which I hope records the essential features of the agreement between our respective companies.

"I have followed as closely as possible the lines of the memorandum brought by Alec from London and in so doing I have repeated in full Clause (4), which is, I think, useful since it sets out the general principles which we both have in mind in regard to the pricing of supplies.

"It may be that I have over-simplified the other Clauses for the sake of brevity but on the whole I think this short note is probably sufficient for our purposes. Please make any modifications which you think would clarify our intentions.

Yours very truly,

Signed: B. R. Jackson"

Enclosure

**"HEADS OF TERMS  
BETWEEN**

**THE ANGLo-IRANIAN OIL COMPANY, LTD.  
AND THE BAHREIN PETROLEUM CO., LTD.**

- "(1) Subject to what is stated below, it is agreed that the Bahrain Refinery shall, as from the 1st of July, 1942, operate on its normal basis for the manufacture of the following products:

| <u>Products</u>    | <u>Barrels per day</u> |
|--------------------|------------------------|
| Gasoline           | 10,000                 |
| Kerosene (Burning) | 4,000                  |
| Kerosene (Power)   | 300                    |
| Gas/Diesel Oil     | 3,500                  |
| Fuel Oil           | 4,600                  |

- "(2) Anglo-Iranian and BAPCO will cooperate closely on shipping programmes to ensure that products shall be lifted from the Bahrain Refinery in order to maintain the normal programme of manufacture of products as set forth in Clause (1).
- "(3) If BAPCO has at any time insufficient outlet through its own normal channels of distribution or by means of sales to third parties to secure the lifting of the whole quantities of products required to maintain the normal manufacture as defined in Clause (1), the Anglo-Iranian will purchase such cargoes as may be necessary to ensure the lifting of such full quantities.
- "(4) Anglo-Iranian will purchase any such cargoes f.o.b. Bahrain Refinery at prices to be agreed between the parties which shall be based on the quotations current in Platt's Oilgram for the products lifted, or for the components in the products where blends are involved. The prices shall not exceed such quotations and may represent a discount on the lowest quotations. If Platt's Oilgram is not the proper indicator of price structure in the markets where the cargoes are destined to be sold, some other basis shall be taken, the intention being that Anglo-Iranian shall not suffer any loss on the f.o.b. price in respect of the realisation of such cargoes. It is agreed that if BAPCO, except for reasons beyond its control, by itself or through any of its Subsidiary or Associated Companies, sells products for bunkers or internally in markets at a price which leaves Anglo-

Iranian with a financial loss on the f.o.b. price payable by Anglo-Iranian for a cargo lifted at Bahrain for consumption as bunkers or in any such market, then EAPCO will make good to Anglo-Iranian the loss incurred on any such cargo.

In accordance with the terms of this Clause it is agreed that the prices to be paid by Anglo-Iranian f.o.b. Bahrain for cargoes lifted during the months of July and August, 1942, shall be as follows: Subject to what is stated hereunder the low quotation of Platt's Oil-gran for export at the Gulf on the 15th day of the month previous to the month in which loading commences.

Gasoline  
As quoted for the Octane No. required by Anglo-Iranian.

Burning Kerosene  
As quoted for 41/43 Water White Kerosene.

Power Kerosene  
As quoted for 41/43 Water White Kerosene plus  $\frac{1}{2}$

Gas Oil  
As quoted for the Diesel Index required by Anglo-Iranian. It is, however, agreed in regard to Gas Oil that Anglo-Iranian will, not order a grade below 53/57 until such time as the minimum of 48 Diesel Index is adopted as a general specification. Anglo-Iranian indicate in this respect that the market standard has already been established in India at 48 minimum.

Fuel Oil  
As quoted for cargo lots of bunker C.

The above prices are subject to a 2% discount on Gasoline and Kerosenes and a 5% discount on Gas Oil and Fuel Oil. The prices quoted for July and August will be extended from month to month unless either party wishes to have them reviewed for good and sufficient reason. It is further agreed that EAPCO will have a reciprocal right to purchase products from Anglo-Iranian on the same price basis.

(5) The above arrangement shall continue until the first of July, 1942 and thereafter until terminated by either party giving to the other three calendar months' previous notice in writing unless either party is prevented by 'force majeure' from carrying out the agreement.



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- "(6) Invoices will be for sterling equivalent at the exchange rate current on the quotation ruling date and payment will be made in London on cable advice of the quantity and price, subject to correction, if necessary, on receipt of the Bill of Lading.

"21st July, 1942"

The typed copy of the above letter and agreement obtained from HERON are being transmitted to the Washington Field Office with copies of this report.

Enclosures to Washington Field (3)

1 statement of ALLAN A. MAC KEILIE.

1 copy of letter from A. A. MAC KEILIE to Admiral BUCK.

1 copy of agreement and letter dated August 19, 1942 between the Anglo-Iranian Oil Company, Ltd. and the Bahrain Petroleum Oil Company, Ltd.

REFERRED UPON COMPLETION TO THE OFFICE  
OF ORIGIN

# Office Memorandum • UNITED STATES GOVERNMENT

TO : DIRECTOR, FBI

FROM : *W* GUY HOTTEL, SAC, WASHINGTON FIELD

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT  
 Bureau file No. 46-13326

DATE: February 24, 1948

Relet February 18, 1948, from New York to the Bureau.

The attention of the New York Office is directed to Page 12 of the report of Special Agent (A) JOHN B. COOK, dated January 7, 1948, which sets forth a letter dated April 16, 1941, from J. A. MOFFETT to the President of the United States whereby an offer was made to furnish oil from Saudi Arabia to the United States Government for 40¢ a barrel. It is to be noted that the price paid by the U.S. Navy from May 1942 to December 1946 was 85¢ to \$1.05 per barrel for what was purported to be the same type of oil. This oil was purchased by the United States Navy from the California-Texas Oil Company, Ltd., and the Arabian-American Oil Company.

In view of the above it is imperative that complete cost information be obtained regarding the California-Texas Oil Company, as well as the Arabian-American Oil Company, in order that the amount of profit accruing by sales from these companies to the United States Navy might be determined.

It is further suggested that the New York Office in the interview of A. A. MAC KILLIE take cognizance of the fact that MAC KILLIE was the buying officer on contract No. W5ax-10985. The justification attached to this contract has been set forth on page 10 of the report of Special Agent JOHN B. COOK, dated February 6, 1948. This is a contract in which the price for oil was raised from 85¢ per barrel to \$1.05 per barrel. The justification pointed out that the increase was probably justified by a reported increase in royalties from 21¢ a barrel to 42¢ a barrel. Actually, there was no appreciable increase in royalties.

CIR 4

MAC KILLIE should be thoroughly interviewed and complete and exact details of his source of information be obtained concerning the increase in royalties from 21¢ a barrel to 42¢ a barrel.

It is requested that this investigation be completed at the earliest possible date.

cc-New York AMSD

JBC:cmh  
46-1908

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55 *[Handwritten signature]*

*[Handwritten initials]*

# FEDERAL BUREAU OF INVESTIGATION

WASHINGTON, D. C.

FILE NO. 46-1908

|   |                |   |   |
|---|----------------|---|---|
| OFFICE<br>WASHINGTON, D. C.   | DATE<br>2-6-48 | PERIOD FOR WHICH MADE<br>1/7, 8, 10, 12, 13,<br>15, 21, 26/48 | REPORT MADE BY<br>J. BERNARD COOK (A) JBC:HS    |
| TITLE<br>UNITED STATES NAVY CONTRACTS FOR PURCHASE<br>OF SAUDI ARABIAN PETROLEUM PRODUCTS |                |   | CHARACTER OF CASE<br>WAR FRAUD CLAIM CIVIL SUIT |

**SYNOPSIS OF FACTS:**

Ras Tanura tanker loading reports obtained from Navy Department. Case and working files of Navy Department regarding fourteen contracts with California-Texas Oil Company and Arabian American Oil Company obtained and summaries set out. Justification attached to Contract #WSSX-10985 states royalty paid by oil companies to the King of Saudi Arabia increased from 21¢ per barrel to 22¢ per barrel. MAX FROBERG employed by State Department from July 7, 1941, to August 18, 1943. The names of RINSHARD, McVICKER and FATE referred to in Senate testimony by A. A. MacKILLIE not identified.

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DEFERRED RECORDING

REFERENCE: Bureau file 46-13326  
 Report of Special Agent (A) J. BERNARD COOK dated January 7, 1948.  
 Bureau letter dated January 13, 1948.

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AT WASHINGTON, D. C.

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*[Signature]*

Photostatic copies of the tanker loading reports of oil shipped from the Refinery at Ras Tanura were obtained from the Navy Department and two copies of each are being forwarded herewith to the Bureau with copies of this report.

|   |                                    |
|---|------------------------------------|
| SEARCHED<br>SERIALIZED<br>INDEXED<br>FILED<br>16 13326-59<br>FBI<br>FEB 10 1948<br>60/48    | RECORDED<br>EX-100                 |
| ① - Bureau (encl.)<br>1 - Los Angeles<br>2 - New York<br>2 - San Francisco<br>2 - [unclear] | [Handwritten notes and signatures] |

*1 cc [unclear] 2/9/48 with [unclear]*

A review of the personnel files of the State Department reflected that MAX WESTON THORNBURG entered on duty at the State Department on July 7, 1941, as a Special Assistant to the Undersecretary of State, acting in the capacity of Chief of the Office of Advisor on Petroleum Affairs. During his residence in Washington he resided at the Shoreham Hotel but his permanent residence was maintained at 160 Park Avenue, Greenwich, Connecticut. The personnel file reflected that THORNBURG was born October 3, 1892, at Los Angeles, California, and is married to LEILA B. THORNBURG. He has two children, ages 14 and 18, and was in the Armed Forces of the U.S. from April 1917 to March 1920.

Prior to his employment in the State Department he was employed from 1920 to 1936 with the Standard Oil Company of California, 225 Bush Street, San Francisco, California. From 1931 to 1936 he was Chief Engineer at the Standard Oil Company of California at a salary of \$18,000 per annum. From 1936 to 1941 THORNBURG was Vice President of the California-Texas Company Ltd. of 130 East 43rd Street, New York City at an annual salary of \$35,000 per annum.

THORNBURG received his education at the University of California from 1914 to 1917 and again from 1920 to 1921 receiving an AB and BS Degree. He again attended this university from 1934 to 1935 receiving a C. E. Degree. From 1919 to 1920 he attended the University of Grenoble, France.

In the file at the State Department there was a letter dated May 31, 1947, from the Fidelity and Casualty Company of New York requesting a reference for MAX THORNBURG of Bahrain Persian Gulf in that THORNBURG had applied for a surety bond of \$20,000 as a Consultant at London, England. This bond was to be in favor of the Twentieth Century Fund, Incorporated. There was no record at the State Department of the employment of any individual bearing the name RINEHART, McVICKER or TATE.

The personnel files of the Navy Department fail to indicate the employment of any individual bearing the name of RINEHART or McVICKER; however there was a personnel file on one GUIOLA W. TATE, who entered on duty at the Navy Department on June 3, 1942, and resigned on January 25, 1947. At the time of the resignation of this employee it was indicated that she was in grade CAF 7 at a salary of \$3397.20 per annum. A further review of this file reflected that GUIOLA TATE was a female and is probably not identical with the TATE referred to in the testimony of A. A. MacKILLIE before the Senate Committee.

The personnel records of the WPB maintained at the Archives Building, Washington, D.C. reflect that the following records of individuals bearing the name of RINEHART or McVICKER employed by the WPB during the period under investigation.

On April 6, 1942, LOUIS FARLOW RINEHART of 730 Montrose Avenue, Columbus, Ohio, entered on duty at the WPB as an Assistant Production Analyst at a salary of \$3200 a year. He resigned on December 31, 1943, to accept a position with a truck tractor company. This file reflected that RINEHART's previous employments were with the Ford Motor Company and printing companies located in Columbus, Ohio. It also indicated that RINEHART's employment while with the WPB was at Columbus, Ohio, and there was no indication of his ever being assigned to Washington, D.C. It is not probable that this RINEHART is identical with the RINEHART referred to in the testimony of A. A. MacKRILLE.

PHILIP B. RINEHART residing at 506 Ellsworth Drive, Silver Spring, Maryland, according to the records of the WPB maintained at the Archives Building, entered on duty with the WPB on October 10, 1941, at a salary of \$5600 per year in grade CAP 13. In April 1942 he transferred to the Office of Chief of Ordnance, War Department as a Principal Production Specialist at the same grade and salary. On July 14, 1942, he returned to the War Production Board as Head Production Specialist, Industry Operations at a salary of \$6500 per annum.

Prior to his employment at the WPB RINEHART was employed by the Standard Home Utilities, Racine, Wisconsin, and the Westinghouse Electric Manufacturing Company of Mansfield, Ohio.

This file reflects that in addition to his Silver Spring address RINEHART also gave as a permanent address the Walnut Park Plaza, 63rd and Walnut Street, Philadelphia, Pennsylvania. He was born on November 7, 1892, is 5' 7" in height, and weighs 162 lbs. It is not known whether this RINEHART is identical with the one referred to in the testimony of A. A. MacKRILLE.

The personnel files of the War Production Board reflect that one JAMES C. McVICKER of 415 North Street, Leganier, Pennsylvania, was employed as a salvage investigator, WPB, Johnstown, Pennsylvania, from January 1, 1943, to July 31, 1943. This file reflects that McVICKER was never stationed

WFO 46-1908

in Washington, D.C. but spent his whole period of employment with the WFB at Johnstown, Pennsylvania.

There were no other individuals bearing the name of RINEHART or McVICKER employed by the WFB during the period of this investigation, according to the files of the WFB which are maintained at the Archives Building, Washington, D.C.

Captain E. L. WOODWARD of the Judge Advocate General's Office, Navy Department, Washington, D.C. turned over to the Bureau a copy of a letter from the Inspector of Naval Material, Bahrain Island, Persian Gulf, to the Naval Boiler and Turbine Laboratory, Philadelphia, Pennsylvania, dated May 13, 1943. This letter is as follows:

Mr. Howarth  
Naval Boiler and Turbine Laboratory  
Philadelphia Navy Yard  
Philadelphia, Pennsylvania

Dear Mr. Howarth:

"I am forwarding via sea transport a 5 gallon sample of Admiralty Fuel Oil taken out of Shell Oil Co. storage at Alexandria, Egypt, on 2 May 1943. This oil is slated to be representative of Admiralty Fuel Oil production at the Consolidated Refinery in Haifa, Palestine, and as such is a 100% straight run material made by topping crude oil piped in from the Kirkuk and Mosul fields in Iraq.

"There are in the Middle East three refineries, at Abadan, Bahrain and Haifa, which can produce fuel oils suitable for Navy usage. All three are potential source of fuel oil for units of the U. S. Navy and as such it is of some considerable importance to know particularly the stability and compatibility characteristics of their fuel oils when mixed with fuel oils from U. S. refinery sources.

"Samples of fuel oil production from each of these three refineries have now been forwarded to the E. B. L. It will be appreciated if these oils be tested with particular reference to stability and compatibility, and a copy of the test results forwarded to this office.

/s/ C. S. Goodin, Jr.  
Lieut. USNR.

cc: Comdr. E. C. Lestrade  
Bulldoze, Navy Dept.

Captain WOODWARD turned over to this office the working and case files of the fourteen contracts made by the Navy with the Arabian American Oil Company and the California-Texas Oil Company, Ltd. Photostatic copies of these files were made and two copies of each are being transmitted to the Bureau with copies of this report.

A review of these files reflects the following pertinent information contained therein.

WISI-6166

This contract was between the California-Texas Oil Company (Overseas) Ltd. of 130 East 43rd Street, New York, New York, and the U. S. Navy. This contract was made on May 25, 1942, and called for the delivery of one million barrels of Navy fuel oil special at 85¢ per barrel or a total of \$850,000 and 100,000 barrels of fuel oil for diesel engines at \$1.25 per barrel or a total cost of \$125,000. The total amount of this contract was \$975,000 and deliveries were called for from May 25, 1942, to June 30, 1942. This oil was to be delivered from Sitra, Bahrain Island. The Purchasing Officer on the contract was H. A. WOODCROSS of the Bureau of Supplies and Accounts, U. S. Navy.

This contract was amended to include an additional 9,000,000 barrels of Navy fuel oil special and 900,000 barrels of fuel oil for diesel engines at the same price as quoted in the original contract adding a total of \$8,775,000 to the original contract. These products were to be delivered from Sitra, Bahrain Island, from July 1, 1942, to June 30, 1943.

WISI-31315

This contract dated November 1, 1942, was between the California-Texas Oil Company (Overseas) Ltd. of New York, New York, and the U. S. Navy. It called for delivery of 102,500 barrels of diesel engine fuel oil at \$1.25 per barrel or a total of \$128,125.00. This contract was a negotiated fixed fee contract and the Purchasing Officer was T. W. BLACKWELL of the Bureau of Supplies and Accounts, U. S. Navy. The oil was to be delivered to the U. S. Navy at Sitra, Bahrain Island, prior to December 31, 1942, and the point of ultimate delivery was indicated as Australia.

WFO 16-1008

WBS-36155

This contract was between the California-Texas Oil Company (Overseas) Ltd., New York, New York, and the U. S. Navy. This contract called for 2,000,000 barrels of Navy fuel oil (special) at \$54 a barrel and 1,000,000 barrels of Navy diesel fuel at \$1.25 a barrel or a total contract price of \$2,950,000. This contract was a negotiated fixed price contract and was awarded on June 25, 1943. It called for delivery of the above products from Sitra, Bahrain Island, from July 1, 1943, to June 30, 1944. The purchasing officers of the above contract were C. E. THORNTON and W. S. BOWLES, Jr., of the Bureau of Supplies and Accounts, U. S. Navy. The officer in charge of the Fuel Division indicated in the contract was H. W. SHAFER. Also appearing on the contract is Lt. T. C. WILLIAMS, USNR of the Supply Section, Fuel Division, U. S. Navy.

WBS-75004

This contract between the California-Texas Oil Company (Overseas) Ltd. of New York City and the U. S. Navy called for the delivery of 114,000 barrels of Navy Diesel Oil at \$1.575 per barrel or a total price of \$179,550. This contract was awarded on March 2, 1945, and called for delivery of the above products from Bahrain Island, Persian Gulf from March 2, 1945, to June 30, 1945. The officer of the U. S. Navy indicated as the awarding officer was D. E. ROSENBERG.

This contract appears to be based on a letter dated January 23, 1946, from E. A. SWINNEY, Director of the California-Texas Oil Company (Overseas) Ltd. offering 15,000 tons or 114,000 barrels of Navy diesel fuel which would be available at the Persian Gulf to be delivered in April for \$1.68 a barrel. This price was reduced by negotiation to \$1.575 per barrel.

In the Navy Department Case file there is a memorandum from H. E. BOWENBERG justifying the price of \$1.575 per barrel for Navy diesel oil inasmuch as other previous contracts called for a price of \$1.25 per barrel for a similar product.

This memorandum is as follows:



Memorandum to File Max 9500h

Contractor first quoted \$1.68 per bbl. for Miesal Fuel to be supplied under the above contract f.o.b. tanker Ras Tanura, Persian Gulf, which price was protested by the buying officer, since two previous Navy contracts for similar product f.o.b. Bahrain were closed at \$1.25 per bbl. (1943 and 1944 fiscal years). After further negotiation, contractor agreed to reduce its price to \$1.575 per bbl. (first counter-offer was \$1.60) but refused to consider any lower price predicated on the following:

- (1) The \$1.25 price was originally tendered to Navy during 1942 (for fiscal year 1943) as an inducement to obtain a contract at a time when Bahrain was operating at only half-capacity and Cal Tex was having difficulty in obtaining allocation of tanker tonnage from the British Ministry of War Transport. Contract was renewed during 1943 (for fiscal year 1944) on same basis as first contract.
- (2) Bahrain was officially placed in the sterling block area during June 1944 (retroactive, however, to Feb. 1944) and contract for products manufactured at this refinery was negotiated and closed with the British Admiralty effective 1 July 1944. Price on this contract for diesel fuel identical to product covered by Max-9500h except 10°F pour point (it is understood this pour will not be guaranteed after April 1945) is 3 pounds 3 shillings 6 pence per long ton equal to \$1.68 per bbl. Cal Tex reports Admiralty's contract at Abadan for same product is not less than \$1.68 per bbl. Although Cal Tex is unable to furnish any evidence on this point, concluding that it would not be logical to expect the Admiralty to pay a British supplier in the same area any less than an American supplier. Two to three cargoes a month are involved on the Cal Tex contract with the Admiralty, and a portion of this oil is delivered to the U. S. Navy in the far East under Reverse Lend-Lease.
- (3) Ras Tanura, while only a few miles from Bahrain, is in the dollar area; hence production at this point for the military will be taken under U. S. Navy contracts. Refinery at

\*present is a small topping plant - capacity 1/3500 b/d. Normal commercial outlets for product manufactured at this plant are same as Bahrain or Abadan i.e. in British controlled areas, and refinery price of a given product therefore is normally the same at all three locations. In this regard, prices in the Persian Gulf area were influenced by prices in the U. S. Gulf during pre-war days. Bunker prices f.o.b. various world ports were historically established by adding to the f.o.b. price in U. S. Gulf freight and insurance from the Gulf port to the actual bunkering port in order to give a c.i.f. price. This selling price was applied to all the oil sold at a given port regardless of its actual origin. The result would be to give Persian Gulf refineries a greater or lesser netback depending on the geographical location of the bunkering port. e. g. if oil were supplied in Bombay from Abadan it would normally show a refinery netback higher than in the U. S. Gulf because of the shorter haul between Abadan and Bombay as compared to the U. S. Gulf and Bombay. Conversely for the same reason if a given bunkering port were geographically closer to the U. S. Gulf than to the Persian Gulf, refinery netbacks at the latter location would be lower than in the U. S. Gulf.

- (4) \*Effective 1 Jan. 1942, the British revised their price policy and adopted f.o.b. U. S. Gulf prices as the standard for f.o.b. Persian Gulf prices on the basis that due to shortage of tanker tonnage, oil supplies required at the various bunkering ports would be drawn from the nearest available source, and the matter of commercial competition no longer existed. Effective 1 Aug. 1942, oil price policy for all bunkering ports in the United Kingdom was similarly revised, and prices established on the basis of f.o.b. actual origin plus actual costs of freight and insurance to destination.
- (5) \*The regular commercial price of the quality oil to be supplied under Mux 9500h today is \$1.7325 f.o.b. Persian Gulf. A special price of \$1.68 was negotiated by Cal Tex with the British Admiralty, or in effect the British Gov't. received a discount equal to 1/84 per gallon off the regular

(5) Cont. \*commercial price. Accordingly, the original quotation on HMax 9500h was \$1.68 which price was rejected by the buying officer. Further discussions with Cal Tex resulted in a counter-bid of \$1.60 finally reduced, however, to \$1.575 per bbl. This price was informally cleared by Comdr. MacKrisle with Mr. Taaffe of W.P.B. (although cost of contract was calculated to be under \$200,000 and therefore would not require formal OPAM clearance, it was felt that a principle of some future consequence might be involved) Mr. TAAFFE indicated that his concurrence on the reasonableness of \$1.575 for a spot cargo under the existing circumstances would not necessarily establish a precedent on future diesel transactions with Cal Tex. Similarly Cal Tex stated that it was in an untenable position with the British and therefore its acceptance of \$1.575 on the subject contract would not constitute a precedent for price of future Bas Tanura diesel production.

\*Note: The price of #2 heating oil (occasionally supplied as off-specification diesel or Fuel 21 gas oil) in the U. S. Gulf is \$1.575 per bbl. Bas Tanura diesel is definitely a higher quality product and therefore a cost of \$1.575 per bbl. is not considered unreasonable.

\*International Aid Division was requested to develop price information on fuels purchased currently by the British Admiralty in the Persian Gulf. In this regard, the following data was reported on 22 March 1945:

| GRADE            | P.O.B.<br>POINT | BBL. PER<br>LONG TON | PRICE/LONG TON |       |       | PRICE<br>\$/BBL |
|------------------|-----------------|----------------------|----------------|-------|-------|-----------------|
|                  |                 |                      | SHILLINGS      | PEACE | \$    |                 |
| Navv Diesel      | Bahrain         | 7.6                  | 63             | 6     | 12.76 | 1.68            |
| Admiralty Diesel | Abadan          | 7.6                  | 64             | 10    | 13.03 | 1.71            |
| Industrial       |                 |                      |                |       |       |                 |
| Diesel           | Abadan          | 7.2                  | 55             | 9     | 11.21 | 1.56            |
| Admiralty Fuel   | "               | 7.0                  | 36             | 6     | 7.32  | 1.05            |

(1 pound = \$4.02; 20 shillings = 1 pound; 12 pence = 1 shilling)

The British consider the Admiralty Diesel and Fuel comparable to Navy Diesel and Fuel (Special) for pricing purposes. The Industrial Diesel is a gas oil/residual blend.

/s/ E. E. Buchanan\*

WFO-10905

This contract was entered into between the Arabian American Oil Company, San Francisco, California, and the U. S. Navy on July 9, 1945, and called for the delivery of 850,000 barrels of Arabian crude oil at \$1.05 a barrel on a total contract price of \$892,500. Delivery was to be made of this product from Ras Tanura, Saudi Arabia from July 14, 1945 to September 30, 1945. The purpose of this oil was indicated as defense aid for France (Lend-Lease). The buying officer was Lt. D. E. BOMBSCHART and the marketing was negotiated by Commander A. A. MacFILLIE of the Fuel Section, Commodity Purchase Branch, U. S. Navy.

In the case file of the U. S. Navy there was a justification for the award of this contract to the Arabian American Oil Company. This justification is as follows:

JUSTIFICATION:

7. Buying Officer: The subject award was negotiated by Contr. A. A. MacFILLIE, Fuel Section, Commodity Purchase Branch.

8. Source: Contractor was designated as supplier by W-1 with deliveries to be scheduled under Lend-Lease to France.

9. Prices: (a) There are no current quotations formally offered by others for Arabian crude oil at this time. Discussions were held with Mr. J. Burton, Assistant to the President of Asiatic Petroleum and Mr. Griffin, Vice President of the Marine Department of Shell Oil Co. with the view of developing price information on British controlled Arabian crude. Statement was made by Mr. Burton that the British would base the value of such crude (cash, wetted Iran/Iraq on 3.5. Gulf seaboard price for a comparable quality crude. From a quality standpoint, 35/36 A.P.I. gravity Test Texas crude has similar characteristics to Arabian crude, and the cost of such crude f.a.s.

T. S. Gulf ports would approximate \$1.17 to \$1.19 per barrel based on \$1.02 at the well plus an estimated \$0.17 to \$0.19 covering gathering, transportation and terminaling charges at seaboard. Contractor's quotation similarly is based on a price of \$1.02 at the well however, gathering, transportation and terminaling at Ras Tanura (approximately 40 miles from the producing field) totals only \$0.03 per barrel.

"(b) Conference was held with various executives of the parent companies, The Texas Company and the Standard Oil Co. of California in order to obtain full information prior to award. This group consisted of Mr. W. S. S. Rogers, Chairman of the Board of Directors and Mr. A. C. Long of the Executive Sales Department of the Texas Company, Mr. J. E. Black, Manager of the Export Department of the Standard Oil Co. of California, Mr. Lloyd Hamilton, Chairman of the Board of Directors of the Bahrien Petroleum Company, Mr. Fred Davies, President of Arabian American and Mr. H. G. Jenkins, Sales Manager of the latter company. This group stated that they considered its original pricing of crude oil for 100 Octane Aviation Gasoline for DSC a reasonable and adequate justification for contractor's quotations to Navy, particularly since current royalties to the King of Arabia are now totalling approximately \$0.42 per barrel as compared to the former \$0.21 per barrel applicable during the period of negotiations of the DSC contract. In addition, it was reported that considerable pressure is being placed on Arabian American to further increase such royalties.

"(c) Claim is made by contractor that it is giving Government the benefit of its established inter-company sales price, specifically the price at which Arabian American sells crude to Bahrien Petroleum. A review of PEW's file on the Bahrien Petroleum/DSC contract for 100 Octane Aviation Gasoline appears to confirm this statement, as Bahrien included in its costs for the gasoline a crude value of \$1.02 at the well.

"h. Price Analysis: The only crude oil price analysis available from contractor is the data supplied PEW in the negotiations for Bahrien Petroleum's sale of 100 Octane Aviation Gasoline to DSC. As this was the subject of dispute between Government and Bahrien over a period of several months, copies of those pages containing data pertinent to crude oil evaluation were extracted from the "Cost Analysis and Breakdown" file on Bahrien Petroleum and consist of the following:

Enclosure (A) - Bahrien Petroleum's letter of 29 January 1943 to PEW, File 75104, pages XIII-22-23-24-25-26.

Enclosure (B) - Extracted pages from PEW's "Memo-~~...~~ random of Recommendation" for aviation gasoline contract with Bahrien dated 9 March 1943, File 75104, pages XIII-50-51-52. Data pertaining to crude oil begins with the fourth paragraph on page XIII-50.

**"Enclosure (C) - "Elements of Cost to Government of  
100 Octane Aviation Gasoline" File 75184 page XXII-43.**

"It will be noted in enclosure (B) that PAN refused to accept Bahrien's crude valuation of \$1.02 per barrel covered by Enclosure (A), and recalculated net materials cost to reflect a base price of \$0.84 per barrel. Bahrien similarly refused to accept PAN's crude valuation and finally after several months negotiation, a compromise was reached which in fact sidestepped the issue of crude valuation by agreement between the parties to increase another cost factor ("Contingencies") from \$0.005 to \$0.0125 per gallon equal to \$0.315 per barrel on finished 100 Octane aviation gasoline. In this connection, attention is directed to Enclosure (C), particularly to the second column of figures covering Bahrien's cost data of 4 February 1943 and the third column headed "PAN Approval" (contract eventually was written on the basis of \$0.1375 per gallon).

"A comparison of the two columns of figures shows the following:

- (1) All items of expense are identical except "Net Petroleum Materials Cost" and "Contingencies."
- (2) PAN reduced by \$0.01107 cents Bahrien's claimed amount for "Net Petroleum Materials Cost." This reflects a base price of \$0.84 barrel for crude f.a.s. Dammam as compared with Bahrien's \$1.045 (\$1.02 at well plus \$0.025 pumping and loading at Dammam).
- (3) PAN increased by \$0.0075 Bahrien's claimed amount for "Contingencies."
- (4) The net reduction in the total price requested by Bahrien vs. the total approved by PAN is only \$0.00357 per gallon.

"In discussing the foregoing with contractor and PAN, neither will admit a change in their respective original premises on crude oil valuation and state that the concessions made by each in finally agreeing on a price of \$0.1375 for the gasoline were not traceable to crude oil.

\*5. Verbal approval: Verbal approval was obtained from  
OPM.

RECOMMENDATION:

"The subject award is recommended by the Fuel Section,  
Commodity Purchase Branch, in accordance with the request of RF-1."

In the above justification it is pointed out that current royalties to the King of Arabia were at that time totaling approximately 42¢ per barrel as compared to the former 21¢ per barrel, applicable during the period of negotiations of the "OSC" contract. It was also pointed out in this justification that considerable pressure was being placed on Arabian American to further increase such royalties; however it was not indicated the source of this information that royalties were increased from 21¢ to 42¢ per barrel.

In this justification attached to contract #W5SE-10985 reference was made to enclosures A, B, and C. Enclosure A was a letter to C. S. SNODGRASS, Associate Director, Foreign Division, Office of Petroleum Administrator for War dated January 26, 1943, from the Bahrain Petroleum Company, Ltd. This letter is as follows:

January 26, 1943

Mr. C. S. Snodgrass  
Associate Director, Foreign Division  
Office of Petroleum Administrator for War  
New Interior Building  
Washington, D.C.

Dear Mr. Snodgrass:

"Mr. Parkhurst has requested information to substantiate the price for the Arabian crude needed for the manufacture of 100 Octane aviation gasoline at Bahrain refinery as set forth in the price schedules transmitted with my letter of January 26th.

"In the case of domestic aviation projects, the cost of crude oil chargeable to the manufacture of aviation gasoline or other products

in readily established by reference to the "posted price" for the particular crude involved. The situation in the Persian Gulf is not so simple because there has not been nor is there now such a figure as the posted or recognized price of the crude oils produced in that area. Therefore the determination of a fair and reasonable price for the crude oil needed for aviation gasoline manufacture at Bahrain must be derived in some other manner.

"The basic principle behind the establishment of a posted price for crude from a domestic oil field is that the price be consistent with the quality of that particular crude, that is with the refining cost and the value of the products which can be manufactured therefrom. This principle results in an adjustment and inter-relation of the prices of crudes from different fields on a comparative quality basis.

"We feel that, in the absence of a "posted price" in the Persian Gulf, the price for Arabian crude must be related to the quality and to the established price of some representative domestic crude. The United States is the largest producer, refiner and consumer of petroleum and hence domestic prices best reflect the true value of crude oil. Furthermore, prior to the war, the U. S. exported large quantities of crude, and the crudes from Iraq and Persian Gulf fields were shipped to Europe in direct competition with these American crudes.

"Of the various U. S. crudes which might be selected, that from the East Texas field seems to be the most logical one to use as the price basis for Arabian crude. Not only was East Texas one of the principal crudes formerly exported, but the field is a large one which is expected to continue to produce large volumes of crude and its posted price is therefore an excellent indication of the value of crude oil in world markets as well as in the U. S.

"The attached Table 1, shows the results of a detailed comparison of the value of East Texas and Arabian crudes in a European refinery equipped with standard facilities for processing crude oil to produce finished motor gasoline, kerosene, diesel oil and fuel oil of merchantable competitive quality. This comparison was made on the basis of supplying a fixed market for gasoline, and substantially constant volumes of kerosene and diesel gas oil. It was found that if Arabian crude were to be substituted for East Texas, a larger volume of crude would be required because of the lower gasoline yield, and a greater volume of fuel oil and gas would be



produced. The annual refining expense with Arabian crude would also be greater. When the values of all of the products were totaled and the refining expense subtracted the net value of the products from each of the two crudes was established. The net figures divided by the barrels of crude required determined the value per barrel of each crude. The Arabian crude was found to be worth \$0.23 per barrel less than East Texas crude.

\*A comparison between East Texas and Arabian crudes is also afforded by the data on Table 2 which shows yields and tests of stocks produced by simple distillation of the two crudes.

\*There is another crude produced in considerable volume in the U. S. which is actually more like Arabian than East Texas crude so far as quality is concerned. Reference is made to East Texas-New Mexico crudes, representative tests on which are shown on Table 3 attached.

\*The price of Arabian crude in the field tanks, shown on Exhibit 1, attached to Schedule A of our revised proposal, is \$1.02 per barrel. This is derived by subtracting the \$0.23 differential value established on Table 1 from the posted price of East Texas crude in field tanks, which is now \$1.25 a barrel.

\*A check on this price is afforded by noting that the posted price for East Texas-New Mexico crude of the same gravity as Arabian (35 to 35.9) is now \$1.02 per barrel.

\*Mr. Parkhurst also requested a breakdown of the cost of transporting Arabian crude from the field tanks to Bahrain refinery by pipeline and barge. The attached Table 4 shows this estimated cost amounting to a total of \$0.07056 per barrel.

\*The addition of the above established field price of \$1.02 plus the transportation cost of \$0.07056 given the total of \$1.09056 as the price per barrel of the additional Arabian crude required for manufacture of aviation gasoline at Bahrain refinery.

Yours very truly.

/s/ H. E. HERRON

COMPARATIVE VALUES EAST TEXAS AND ARABIAN  
CRUDE AT REFINERY

TABLE I

EAST TEXAS CRUDE

| <u>PRODUCT</u>                         | <u>% from Cr.</u> | <u>\$/Bbl.</u> | <u>Bbls. per year</u> | <u>Total Value</u> |
|--|-------------------|----------------|-----------------------|--------------------|
| Gasoline                               | 57.80             | 2.73           | 1,200,000             | \$ 3,280,000       |
| Kerosene                               | 2.70              | 2.52           | 56,000                | 141,000            |
| Diesel Gas Oil                         | 6.64              | 1.25           | 137,866               | 172,100            |
| Fuel Oil                               | 225.40            | 0.75           | 527,357               | 396,000            |
| Fuel Gas                               | 7.23              | 0.75           | 150,078               | 113,000            |
| Total Crude                            |                   |                | 2,076,258             | 4,102,100          |
| Refining Expenses                      |                   |                |                       | 879,382            |
| Net Value Crude<br>at Refinery         |                   |                |                       | 3,222,718          |
| Value per Bbl. of<br>Crude at Refinery |                   |                |                       | \$1.55             |

ARABIAN CRUDE

| <u>PRODUCT</u> | <u>% from Cr.</u> | <u>\$/Bbl.</u> | <u>Bbls. per year</u> | <u>Total Value</u> |
|----------------|-------------------|----------------|-----------------------|--------------------|
| Gasoline       | 47.10             | 2.73           | 1,200,000             | \$ 3,280,000       |
| Kerosene       | 2.70              | 2.52           | 68,790                | 173,500            |
| Diesel Gas Oil | 5.40              | 1.25           | 137,580               | 171,800            |
| Fuel Oil       | 31.60             | 0.75           | 805,096               | 605,000            |
| Fuel Gas       | 13.30             | 0.75           | 336,854               | 254,000            |

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|                                     | <u>Exp. per year</u> | <u>Total Value</u> |
|-------------------------------------|----------------------|--------------------|
| Total Crude                         | 2,517,771            | 4,434,300          |
| Refining Expense                    |                      | 1,121,243          |
| Net Value Crude at Refinery         |                      | 3,363,057          |
| Value per Bbl. of Grade at Refinery |                      | \$1.32             |

\*\*\*\*\*

**COMPARATIVE EVALUATIONS**  
**ARABIAN & WEST TEX.-NEW MEX. CRUDES**

TABLE 3

|                              | <u>Average Test Tex.-New Mexico</u><br><u>Pipe Line Samples</u> |            | <u>Stabilized</u><br><u>Arabian</u> |
|------------------------------|---|------------|-------------------------------------|
| <b>CRUDE</b>                 |   |            |                                     |
| Gravity                      | 36.5  | 32.6       | 35.3                                |
| Sulfur, %                    | 1.01  | 1.32       | 1.52                                |
| <b>GALINE-1 from Crude</b>   | 39.2  | 32.3       | 32.2                                |
| Sulfur                       | .103  | .175       | 0.037                               |
| Octane                       | 55 (L-3)  | 55.7 (L-3) | 42.3 (CFM)                          |
| 90%                          | 355   | 364        | 357                                 |
| RP                           | 396   | 397        | 390                                 |
| <b>KEROSENE-1 from Crude</b> | 4.3   | 4.6        | 10.0                                |
| Thermo Visc.                 | 100.  | 100        | 100                                 |
| Gravity                      | 41.6  | 39.7       | 43.8                                |
| Sulfur                       | 0.23  | 0.35       | 0.14                                |
| 90%                          | 445   | 450        | 463                                 |
| L.P.                         | 472   | 480        | 487                                 |
| <b>DIESEL-1 from Crude</b>   | 37.1  | 39.3       | 31.9                                |
| Gravity                      | 30.0  | 27.6       | 35.0                                |
| Diesel Index                 | 68  | 42.5       | 56.6                                |
| Su Visc./100                 | 52  | 55         | 60                                  |
| <b>RESIDUM 1 from Crude</b>  | 19.5  | 22.6       | 25.9                                |
| Gravity                      | 15.1  | 13.8       | 14.8                                |
| Su Visc./210                 | 360   | 508        | 208                                 |
| <b>LOSS</b>                  | 0.9   | 1.2        | 0                                   |

TABLE 4

**\*ARABIAN CRUDE OIL  
TRANSPORTATION & EXPENSE  
FROM FIELDS TO SAHRAIN REFINERY**

|  | <u>¢/Bbl.</u>  |
|--|----------------|
| Pumping & Loading Arabia                                     | .02500         |
| Marine Freight   | .00780         |
| Receiving-Pumping to Refinery                                | .02445         |
| Administration and Overhead                                  | .00725         |
| Depreciation (5%) & Maintenance (2%)                         | .00546         |
| Marine Transportation Loss                                   | .00060         |
| Total Cost of Moving Crude from Field<br>to Bahrain Refinery | <u>.07056*</u> |

Enclosure B referred to in the Justification is as follows:

\*ENCLOSURE (B)

It should also be noted that the price of 13.75¢ per gallon is less than the freight cost which would be involved if we were required to ship comparable products from the Texas Gulf to the Persian Gulf, not including insurance on the cargo.

While the foregoing consideration might well be taken as sufficient justification for the negotiated price of 13.75¢ per gallon, we have nevertheless felt it necessary to make an analysis of Bahrain Petroleum Company's costs in order to assure ourselves that the proposed price involves neither an excessive profit nor write-off on capital costs in excess of normal depreciation, amortization and obsolescence. The necessity for such a cost analysis arises out of the policy adopted in January 1942, by representatives of the War and Navy Departments, Defense Supplies Corporation,

and this office, which policy has been followed as to all contracts for the purchase by Defense Supplies Corporation of 100 Octane aviation gasoline manufactured in the United States.

"Such a cost analysis necessarily involves a study of raw materials, costs operating cost, capital charge (depreciation, amortization and obsolescence), facilities charge (interest on the investment), an allowance for contingencies and a modest profit allowance. In the present instance, we have been able to agree with Bahrain Petroleum Company on the use of figures for all of these items (other than raw materials costs and contingencies) which figures are, in our opinion, entirely fair and reasonable and favorable to Government. Moreover, Bahrain Petroleum Company, at the request of Defense Supplies Corporation and this office, has agreed to the insertion of a clause in the contract which will permit re-evaluation of the price in the event that the actual production exceeds the estimated production.

"With regard to the raw materials costs, we have encountered considerable difficulty. This difficulty arises from the fact that the 100 octane aviation gasoline will be made by running an additional quantity of Arabian crude produced by a company, the capital stock of which is owned by the same companies which own the capital stock of Bahrain Petroleum Company, namely, Standard Oil Company of California and the Texas Company. Moreover, the problem is complicated by the fact that there is no competitive market for this Arabian crude at the present time.

"In the case of domestic contracts our analysis of the raw materials costs has not gone back of the fair established market values of the raw materials used. Thus in those cases in which the 100 octane aviation gasoline is made by running additional crude oil rather than by converting other products into aviation gasoline, we have accepted the "posted" price of crude oil as a proper evaluation since in the case of domestic crude oils such "posted" prices have become accepted criteria of value.

"In the case of Arabian crude, there is no reasonable equivalent of the "posted" price and Bahrain Petroleum Company has taken and adhered to the provision that this Arabian crude must be evaluated by reference to the "posted" prices of domestic crude oils. Bahrain Petroleum Company has submitted data to show that if East Texas crude and Arabian crude are run in an ordinary refinery to make normal products, the Arabian crude would have to be evaluated at 2 1/2 per barrel less than the East Texas crude in

order to provide the same realization on products. This comparison has been made without taking into consideration differences in transportation costs. Since East Texas crude sells for \$1.25 per barrel at the present time, Bahrain Petroleum Company takes the position that the Arabian crude is worth \$1.02. The Company further points out that the \$1.02 figure is the same as the present "posted" price of West Texas-New Mexico crudes which are similar in character to the Arabian crude.

"We have refused to accept this evaluation of Arabian crude because it appears to us that its comparative value with reference to domestic crude is not a proper criterion and because the pre-war sales of Arabian crude, the last of which sales to companies other than Bahrain were in 1940, were at prices considerably lower than \$1.02 per barrel. Specifically we understand that the Company owning the Arabian crude had a contract with a Japanese firm calling for the sale of a large volume of this crude at 86¢ per barrel f.a.s. the Arabian Coast. We further understand that this contract was cancelled by the Japanese as a result of pressure exerted on Dutch East Indian sources of crude oil and as a result of these factors two cargoes were shipped to the Japanese at a price of 74¢ per barrel f.a.s. the Arabian Coast. We do not believe that these latter sales (or certain other small sales which we understand were made for shipment to Mediterranean ports) represent a fair index to the market value of the Arabian crude but we have taken the position that this crude oil should not be evaluated at a price higher than the 86¢ per barrel figure contained in the large scale contract referred to above. We believe this position is justified despite a number of factors which have been pointed out by Bahrain Petroleum Company indicating that even this 86¢ per barrel price does not provide any index of present market value. One fact which Bahrain Petroleum Company points out in support of this view is that it has been found necessary to make large advances to the King of Arabia since the 86¢ per barrel sales were made.

"The other factor which presents unusual difficulty in analyzing the cost of producing 100 octane aviation gasoline at Bahrain is the allowance for contingencies. Such an allowance has been made in prices negotiated for domestic production of 100 octane aviation gasoline from new facilities not yet constructed and we believe that such an allowance is thoroughly justified because of the many factors which may interfere with the full realization of the technical and economic expectations involved in production by relatively new processes. This allowance for contingencies has usually been 0.5¢ per gallon in the case of domestic production from new facilities.

"It is obvious that the contingencies which may arise in the construction and operation of a plant at Bahrain Island, in immediate proximity

to a war zone, are for in excess of the contingencies inherent in domestic production. While the contract will provide that British Supplies Corporation will take the entire risk for the education of other energy nations prior to delivery of construction materials and equipment of petroleum, the risk of loss due to enemy action after construction materials and equipment are delivered at Bahrain is shared 75% by Japanese supplies Corporation and 25% by Bahrain Petroleum Company. However, Japanese Supplies Corporation's maximum liability is restricted to the outstanding balance of the loan which Japanese Supplies Corporation will make to Bahrain Petroleum Company and that will finish rapidly. After three years Bahrain Petroleum Company will assume the entire risk.

Another general contingency arises out of the fact that the breakdown of any key item of equipment whether, due to enemy action or normal causes, might result in a prolonged shutdown because of the time required for shipping a replacement part. Such a shutdown would involve a large financial loss to Bahrain Petroleum Company.

A very large risk which Bahrain Petroleum Company has pointed out arises from the possibility that it may not be possible to utilize these facilities after the war since they are useful mainly for aviation gasoline and since there is a very large British production of this product in the immediate area. We believe that the possibility of a very limited, or even no-war, test program scenario use for the facilities, is definitely greater than it would be if the facilities were installed in the United States.

The Bahrain Petroleum Company puts particular emphasis upon the fact that costs may rise due to demands for increased royalty payments by the King of Arabia and, as pointed out above, past history would appear to support the contention that this is a very real possibility. At the present time the Arabian Government contends that the established royalty rate of 21¢ per barrel should be approximately doubled as the result of the position that royalties should be paid in "sovereign payments."

Another major contingency is with regard to the disposition of the fuel oil produced as a by-product of the 100 octane aviation gasoline. At present Bahrain Petroleum Company is selling all the fuel oil it can sell and could readily raise additional fuel oil from existing facilities if a market existed. Most importantly, this fact, Bahrain has, at our insistence, given Government full control in the price of 100 octane aviation gasoline for the additional fuel oil to be produced as a by-product. If this fuel oil cannot be sold, the production cost would be increased by 0.2¢ per gallon of 100 octane aviation gasoline.

Mohren Petroleum Company is carrying all of the risks involved in connection with the personnel required to be transported to Bahrain for the purpose of carrying on the operations of this plant. This transportation cost alone will rise very considerably and it constitutes an important item in the cost of production.

Due to the very nature of contingency items, precise evaluation of their monetary value is impossible and the amount of the contingency allowance is necessarily a question of judgment. After very careful study and thorough consideration, we have come to the conclusion that a contingency allowance two and one-half times that made in the case of a domestic project is justified in this instance. This contingency allowance would amount to 1.25¢ per gallon of 100 octane aviation gasoline. Mohren Petroleum Company has asked only for the normal contingency allowance of 0.5¢ per gallon and has used the existence of the abnormal contingencies as a basis for the use of a price of \$1.02 per barrel for the Arabian crude. We believe this to be an improper method of cost analysis and in our opinion the contingencies should be recognized as such and an allowance made therefore.

With the contingency allowance of 1.25¢ per gallon and other costs evaluated on a basis consistent with domestic production and favorable to Government, the 13.75¢ per gallon price for the 100 octane aviation gasoline contains an allowance for raw materials equivalent to a price of slightly less than \$1½ per barrel for the Arabian crude f.o.b. the Arabian Coast. While it is impossible to say that this is or is not exactly the proper price, we believe it is completely justifiable since it is less than the price involved in the only large volume commitment entered into prior to the War, namely 86¢ per barrel."

Enclosure C referred to in the justification is the "Elements of Cost to Government of 100 Octane Aviation Gasoline." This enclosure is as follows:

**MOHREN PETROLEUM COMPANY LIMITED  
ELEMENTS OF COST TO GOVERNMENT OF 100 OCTANE  
AVIATION GASOLINE (GRADE 130)**

|                              | <u>Bahrain's Cost Data</u> |                   |                    |
|------------------------------|----------------------------|-------------------|--------------------|
|                              | <u>Jan. 27, 42</u>         | <u>Mar. 1, 42</u> | <u>Feb. 28, 42</u> |
| Net Petroleum Materials Cost | 5.922                      | 5.096             | 3.975              |



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| (Continued)         | Bahrain's Cost Data |               | P.A.W. Approval |
|---------------------|---------------------|---------------|-----------------|
|                     | Jan. 27, 1945       | Feb. 10, 1945 |                 |
| Operating Cost      | 5.420               | 5.069         | 5.069           |
| Facilities Charge   | 1.935               | 1.805         | 1.805           |
| Capital Charge      | 0.425               | 0.399         | 0.399           |
| Contingencies       | 0.500               | 0.500         | 1.250           |
| Management & Profit | <u>1.277</u>        | <u>1.258</u>  | <u>1.258</u>    |
| TOTAL               | 15.557              | 11.107        | 13.750 =        |

W58X-12727

This contract was awarded by the U. S. Navy on September 7, 1945, to the Arabian American Oil Company, San Francisco, California, and called for the following products to be delivered from the Refinery at Ras Tanura, Saudi, Arabia from October 1, 1945, to December 31, 1945.

| <u>ITEM</u>             | <u>QUANTITY</u> | <u>PRICE PER BBL.</u> | <u>TOTAL</u>           |
|-------------------------|-----------------|-----------------------|------------------------|
| 80 Octane Motor Fuel    | 411,000 bbls.   | \$2.73                | \$ 1,122,030.00        |
| 7-C-2 Diesel Fuel Oil   | 922,250 "       | 1.68                  | 1,549,380.00           |
| Navy Fuel Oil (Special) | 1,060,500 "     | 1.05                  | <u>1,092,525.00</u>    |
|                         | TOTAL           |                       | <u>\$ 3,763,935.00</u> |

The Navy Purchasing Officer on this contract was J. J. FALSE. The contractor's original price in letter dated August 8, 1945, was \$2.835 for the 80 Octane Motor Fuel and \$1.7325 for Diesel Fuel oil. By negotiation the Navy Department reduced the prices for these products to the prices set forth in the contract.

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There is set forth herewith a copy of the Justification attached to the copy of the contract contained in the Navy Department Case File.

JUSTIFICATION:

1. Buying Officer: The subject award was negotiated by Lt. J. J. WALSH, Fuel Section, Commodity Purchase Division.

2. Source: Contractor was designated as source of supply by the Fuel Division (10-1).

3. Price: Contractor originally quoted in letter dated 6 August 1945 \$2.35 per barrel for Item 1, \$1.7375 per barrel for Item 2 and \$1.05 per barrel for Item 3. These prices were subsequently revised to the proposed contract prices on 7 September. Specifications applicable to the contract are as follows:

Item 1 - U. S. Army Specification 7-1013, Type A dated 3 November 1943 and Amendment 1 and Revision 1 dated 11 February 1944.

Item 2 - Navy Dept. Specification 7-0-7e dated 1944 with the following exceptions:

|               |           |
|---------------|-----------|
| Four Point %  | 20 Max.   |
| Three Point % | 30 Max.   |
| Saltpur       | 1.25 Max. |

Item 3 - Navy Dept. Specification 7-0-1g dated 2 April 1945 except pour point which shall be 55°F. Max.

4. These products to be sold to the Navy will represent the initial output and sale from this refinery which will be completed during the latter part of this month. The construction of this refinery has taken place during the war with the cooperation and approval of the U. S. Government (See the attached copy of a dispatch dated 9 May 1944 released by the Secretary of the Navy and a letter dated 11 May 1944 to Mr. Fred A. Davies, President, of the Arabian American Oil Company from the Petroleum Administrator for War.)

RECOMMENDATION: Contract prices proposed for this contract are recommended for approval and represent the lowest possible prices to be obtained from

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\*The contractor. They are considered equitable when compared to the Gulf Coast U. S. prices for the same products and since the products are destined for consumption in the South Pacific Area, a very definite freight advantage is obtained over the U. S. Gulf Coast.\*

There is set forth herewith a letter from F. A. DAVIS, President of the Arabian American Oil Company to Commander A. A. MacKILLIP dated August 4, 1945, in which he indicated the basis for the prices charged the United States Navy for oil products.

Commander A. A. MacKille  
Bureau of Supplies and Accounts  
Navy Department  
Washington 25, D. C.

Prices for Ras Tanura  
Refinery Products

\*Dear Commander MacKille:

Mr. H. G. Dumas of our Company is discussing with the Bureau of Supplies and Accounts the sale of petroleum products to be produced in our Ras Tanura refinery, which will soon start operating. In the course of this discussion the relation between U. S. Gulf prices and equitable prices at Ras Tanura was considered. Believing that our views in this matter will be helpful to you in forming your own conclusions, we present them as follows:

\*The basic consideration is the fact that the Ras Tanura Refinery construction was undertaken during the peak of the war activity to supply petroleum products to the U. S. Government exclusively. We have resorted to every reasonable extraordinary expense to comply with the urge on the part of PEM and the AFB to get this refinery in production at the earliest possible date and will continue to do so to assure maximum output once it is in operation.

\*The U. S. Government has not been requested to contribute any financial assistance to this project.

\*Our analysis of the commercial post war market indicates that the outlet for the products of this plant in normal commercial channels will be limited for several years. Even, when and if the U. S. Government discontinues taking products from this refinery, there is great risk of the plant operating at low and unprofitable capacity for a period.

"Accordingly, we feel that in pricing the products from this plant it should be looked upon as a war-time plant. We also feel that it is quite proper to relate the Ras Tanura prices to the U. S. Gulf prices, for the latter prices reflect long experience of the industry and the oil trade in such matters. The following factors should indicate that prices at Ras Tanura should be not less than present U. S. Gulf ceiling prices:

"1. Practically all of the plant facilities used in the U. S. Gulf for producing motor gasoline, diesel oil, and fuel oil were built before the war. Hence, prewar construction costs are reflected in U. S. Gulf prices. On the other hand, the entire plant at Ras Tanura was built during the peak of war activity. The increase in construction cost in the war period can be determined in various ways; our experience indicates that it costs at least 50% more now to build a given plant than it did before the war.

"2. The factor in (1) above would apply to a new plant built in this country. An additional factor must be applied for plants built at Ras Tanura. Superimposed on domestic construction costs we have to add to the cost of materials, export packing, ocean freight, insurance, and handling, and to labor, extra wages, cost of transporting to and from Ras Tanura, and feeding and housing. Our experience indicates that these extra costs amount to at least 60% to 75% of domestic costs. Thus the plant cost elements in product prices at Ras Tanura are from 2.6 to 2.9 times as much as in the U. S. Gulf.

"3. Operating labor costs are likewise higher at Ras Tanura than in the U. S. Gulf. In a normal commercial venture we would start up in a small way and train local labor as we go. Thus an efficient operating organization could in time be built up to compete with other areas. But in our present case at Ras Tanura we have to start the whole plant practically at once and be prepared to maintain the maximum practical output. We have been constantly urged by PAI and AFB to obtain earliest and maximum output practical.

"There is practically no local labor trained in refinery operation. The only opportunity they have had to learn is on the little, 1,000-barrel, plant at Ras Tanura. Hence, we are forced to provide practically a full complement of American operating labor and use this force for a considerable period while local labor is gradually acquiring necessary skills and learning to assume responsibilities.

WFO 15-1938

"Each American costs over \$1,000 per month worked at Bas Tantara. This includes wages, transportation cost, salary in transit, housing, food, and other essential costs. Thus our labor cost is at least three times the U. S. Gulf labor cost.

"The foregoing three points will serve to inform you concerning the relative cost at Bas Tantara and in the U. S. Gulf area and will, we believe, be a fair guide in judging the proper relation between the Bas Tantara prices and the U. S. Gulf prices.

"We have considered discussing post war costs but have concluded that they have no bearing on the case. It is simpler to deal with the facts as they are now than to attempt to evaluate post war conditions, which would be speculative at best.

"We trust this information will be useful to you.

Yours truly

/s/ T.A. Davies."

Under date of August 9, 1945, H. J. DEWEY, Manager of Sales of the Arabian American Oil Company wrote the following letter to Commander A. A. MacVILLIE setting forth the quantities of oil products to be available during the year 1945 and the price quoted for these products:

"Dear Commander MacVillie:

"In accordance with our recent discussions, this letter is written to cover the terms under which the Arabian American Oil Company offers you the total quantities of products available for offshore shipment from its new refinery under construction at Bas Tantara, Saudi Arabia.

"It is estimated that the following quantities will be available for lifting during the remainder of the year 1945, which is the period in which you are interested:

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|                          | October<br>(1954) | November<br>(1954) | December<br>(1954) | TOTALS           |
|--------------------------|-------------------|--------------------|--------------------|------------------|
| 60-Gallon Motor Gasoline | -                 | 130,500            | 155,000            | 285,500          |
| NAVY Diesel Fuel Oil     | 225,750           | 218,000            | 455,500            | 900,250          |
| NAVY Special Fuel Oil    | <u>110,000</u>    | <u>294,500</u>     | <u>605,000</u>     | <u>1,009,500</u> |
| <b>TOTALS</b>            | <u>335,750</u>    | <u>643,000</u>     | <u>1,215,500</u>   | <u>2,520,750</u> |

It should be kept in mind that the above quantities are the Company's best estimates only. Construction of the refinery has not been completed and there may be delays in getting it into operation, so that it will be necessary for us to advise you from time to time with regard to any changes in the above estimates. At the present time, an estimate of the quantities available for offtake is included in the statement which is sent each month to you and the Field Division, of the Bureau of Supplies and Accounts. This statement shows the total estimated production of the refinery, with allowance for necessary local consumption and bunkers, the balance being available to you for offtake.

The specifications for the above products are as follows:

60-GALLON MOTOR GASOLINE - Motor Fuel (all purpose) U. S. Army Specification No. 2-1036, Type A, November 3, 1943, and Amendment 1, February 11, 1944.

NAVY DIESEL FUEL OIL - Navy Department Specification 7-0-21, May 15, 1945, except for Pour Point, which shall be 20° F., Navy Diesel Fuel, which shall be 30° F., Navy Fuel Oil, which shall be 1.25% Sulfur.

NAVY SPECIAL FUEL OIL - Navy Department Specification 7-0-17, October 2, 1944, and 7-0-34, April 2, 1945, except for Pour Point which shall be 30° F. This product will pass P. and S. Viscosity Test at 100° F.

Compatibility tests on the Navy Special Fuel Oil have not been completed, but it is fully expected that the Navy Special Fuel Oil will meet the requirements of the Bureau of Ships, although the specific tests are not yet completed.

"Deliveries are to be in bulk cargo lots, in bunkers provided by the Navy, or at the Navy's instructions. We require that nominations of tankers be tendered as far acceptance, or rejection, at least two weeks prior to estimated loading date.

"We quote you the following prices for delivery in bulk, at ship's rail, in cargo lots, at our Ras Tanura terminal:

80-OCTANE (ALL PURPOSE) GASOLINE - 6.75¢/gal.

NAVY DIESEL FUEL OIL - \$1.7325/42 gal. bbl.

NAVY SPECIAL FUEL OIL - \$1.01/42 gal. bbl.

"Since you are not currently purchasing cargoes in the Persian Gulf, some explanation of the above prices may be in order. The normal market for the Persian Gulf is the same as that of U. S. Gulf. We understand that the British are paying the equivalent of U. S. Gulf prices for cargoes purchased in the Persian Gulf at the present time. The above quotations are the U. S. Gulf ceiling prices.

"As we have brought out in our conversations, the Arabian American Oil Company's new refinery, now under construction at Ras Tanura, is being built wholly at the Company's expense as a wartime project. The Company has resorted to extraordinary expense to build the refinery at this time and to rush its completion in order to make products available to the military. In support of this statement, there is attached a letter, dated July 30, 1945, to you from the Company's president, Mr. F. L. Davis.

Very truly yours,

/s/ H. G. Dunbar (original)"

WFO-11539

This contract is a negotiated fixed price contract dated December 24, 1945, between the California Texas Oil Company, Ltd. of New York, and the U. S. Navy. This contract called for the purchase of the following oil supplies by the U. S. Navy:

WFO 46-1908

| <u>TYPE</u>                       | <u>QUANTITY</u> | <u>UNIT PRICE</u> | <u>TOTAL</u>           |
|-----------------------------------|-----------------|-------------------|------------------------|
| 80-OCTANE Motor<br>Gasoline       | 276,000 bbls.   | \$2.73            | \$ 753,490.92          |
| Navy Diesel<br>Fuel 7-0-2E        | 220,331 bbls.   | 1.68              | 370,156.08             |
| Navy Fuel Oil<br>(Special) 7-0-1G | 1,200,000 bbls. | 1.05              | <u>1,260,000.00</u>    |
|                                   |                 | <u>TOTAL</u>      | <u>\$ 2,383,647.00</u> |

The above products were to be delivered from Bahrain Island, Persian Gulf from October 1, 1945, to November 30, 1945.

On November 20, 1945, the contract was extended to cover the period October 1, 1945, to January 31, 1946, and added the following amounts of the above products at the same price as previously quoted.

80 Octane Motor Gasoline - 223,996 bbls.  
Navy Diesel Fuel - 508,669 bbls.  
Navy Fuel Oil (Special) - 1,000,000 bbls.

The total of this addition to the contract amounted to \$2,613,753.00.

In January 29, 1946, an offering was made to the Navy for an additional amount of oil products which offer was accepted on February 11, 1946. This addition to the contract added 345,000 bbls. of Navy Diesel Fuel Oil and 800,000 bbls. of Navy Fuel Oil Special to the price quoted in the original contract. Deliveries for these products were to be prior to March 31, 1946. This last addition added \$1,419,600 to the contract.

The buying officer indicated on this contract was D. E. BURNETT.

568-12729

This contract dated November 20, 1945, was entered into between the Arabian American Oil Company of San Francisco, California, and the U. S. Navy and called for the delivery of the following oil products.



WFO 46-1908

| <u>TYPE</u>              | <u>QUANTITY</u> | <u>UNIT PRICE</u> | <u>TOTAL</u>            |
|--------------------------|-----------------|-------------------|-------------------------|
| 80 Octane Motor Gasoline | 2,070,000 bbls. | \$ 2.73 per bbl.  | \$ 5,651,100.00         |
| Diesel Fuel Oil          | 3,555,000 bbls. | 1.68 " "          | 5,969,200.00            |
| Navy Fuel Oil (Special)  | 3,910,000 bbls. | 1.05              | <u>4,105,500.00</u>     |
| TOTAL OF CONTRACT        |                 |                   | <u>\$ 15,725,800.00</u> |

This contract covered deliveries from Ras Tanura, Saudi Arabia from January 1, 1946, to June 30, 1946. This contract was a negotiated contract, the purchasing officer being Lt. Commander J. J. WALSH.

On April 27, 1946, an Item #4 was added to this contract for Navy Fuel Oil Special low viscosity. This amendment called for 31,760,000 barrels of this product for delivery from May 1st to June 30, 1946 at \$1.17 per barrel, or a total of \$3,715,920.00. In this same amendment the deliveries of Diesel Fuel Oil were to be reduced by 360,000 barrels and Navy Fuel Oil-Special Grade by 1,380,000 barrels.

7651-151

This contract was entered into on March 20, 1946 between the California Texas Oil Company, Ltd. and the U. S. Navy, and called for the delivery of the following amounts of oil products from Bahrain Island, Persian Gulf for the period April 1, 1946, to December 31, 1946.

| <u>TYPE</u>             | <u>QUANTITY</u> | <u>UNIT PRICE</u> | <u>TOTAL</u>            |
|-------------------------|-----------------|-------------------|-------------------------|
| Navy Diesel Fuel        | 1,800,000 bbls. | \$1.68 per bbl.   | \$ 3,024,000.00         |
| Navy Fuel Oil (Special) | 7,100,000 bbls. | 1.05 " "          | <u>7,455,000.00</u>     |
| TOTAL                   |                 |                   | <u>\$ 10,479,000.00</u> |

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The following Justification was signed by P. L. BULLINGER, Lt. Commander, USNR:

\*JUSTIFICATION:

\*1. Buying Officer: The subject award is recommended by Comdr. D. V. Yungrovius, Fuel Section, Commodity Purchase Branch.

\*2. General: This award covers a portion of the product being obtained from the Persian Gulf Area to cover Navy requirements. It is to be noted that this contract is for a 9 month period however, by the Navy committing themselves for this period, this company has mitigated a \$29,000,000.00 damage claim to \$19,000,000.00. Incident to the above claim and to the present and expected petroleum supply situation, it is the belief of the buying officer that this commitment is to the best interests of the government.

\*3. Prices: The price for these products from this contractor has been previously approved and are the current market prices for that area.

RECOMMENDATION:

The subject award is recommended by the Fuel Section, Commodity Purchase Branch.

/s/ P. L. BULLINGER, Lt. Comdr. SC (S) USNR  
Bureau of Supplies and Accounts  
By Direction of the Chief of Bureau

APPROVED 20 March 1946

P. L. KING /s/  
IN DIRECTION OF THE SECRETARY OF THE NAVY

/s/ S.J. Fitzgerald / JDC  
FUEL SECTION, OAS, etc.

In this Justification there is set out that by awarding instant contract for a period of nine months the California-Texas Oil Company, Ltd. has mitigated a \$29,000,000 damage claim to \$19,000,000. Under date of January 3, 1946, H. E. HERRON, President of the Bahrain Petroleum Company, Ltd. wrote the following letter to Commander RAIF S. POTTER of the Fuels Division, Navy Department, Washington, D.C. setting forth the damages incurred by the Bahrain Petroleum Company due to the Navy's

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Inability to accept deliveries under contract of March 15, 1943.

"Dear Commander Fowler:

"Complying with your request at the conference in Washington on December 18th, we submit herewith information respecting damages incurred by The Bahrain Petroleum Company Limited by reason of the failure of the Government to purchase the quantities of 100-octane aviation gasoline provided for in the contract of March 15, 1943, and the Navy's inability to accept deliveries under such contract.

"As stated at the December 18th conference by our representatives, the total damages incurred by The Bahrain Petroleum Company to date amount to the following:

|   |                             |
|---|-----------------------------|
| Total Estimated Final Cost of Plant   | \$ 28,558,000               |
| Cost of recruiting, training, transporting,<br>maintaining and returning personnel                  | 600,000                     |
| Cost of excess catalyst, chemicals and<br>other materials   | <u>750,000</u>              |
| <b>TOTAL</b>  | <b>\$ 29,908,000</b>        |
| Less: Profit and facilities charges on<br>sales 556,000 barrels at 3.063¢ gal.                      | 715,272                     |
| Estimated value of facilities to<br>The Bahrain Petroleum Company Ltd.,<br>based on present outlook | <u>2,000,000</u>            |
| <b>TOTAL DEDUCTIONS</b>   | <b>\$ <u>2,715,272</u></b>  |
| <b>TOTAL ESTIMATED DAMAGES NOT INCLUDING ANY<br/>ANTICIPATED PROFITS FROM OPERATIONS</b>            | <b>\$ <u>27,192,728</u></b> |

"However, at the time contract was made in the early part of 1943, the war was at its height and the ARPS, PIR and combined Chiefs of Staff insisted that the plant be built in order to have an additional supply of 100-octane aviation gasoline available in the Persian Gulf. The Bahrain Petroleum Company entered into the contract under duress from a

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patriotic and war effort standpoint with the calculation that at the end of the 36 months' contract period the facilities would stand on our books, as follows:

|   |                  |                     |
|---|------------------|---------------------|
| Original estimated investment cost  |                  | \$ 17,786,000       |
| Less: Depreciation at \$1,105 per day<br>x 1,095 days   | \$4,823,475      |                     |
| Less: Management and Profit<br>Fee \$3,070 per day x<br>1,095 days                                  | <u>3,361,650</u> | <u>8,185,125</u>    |
| Estimated value of facilities to The<br>Bahrain Petroleum Company Ltd. at time<br>contract was made |                  | \$ <u>9,600,875</u> |

Taking into consideration the foregoing, and without prejudice to a claim for damages for the larger amount above referred to, The Bahrain Petroleum Company is willing to consider a revision of its estimated damages as follows:

|   |                      |
|---|----------------------|
| Total estimated final cost of Plant   | \$ 28,559,000        |
| Cost of recruiting, training, transporting,<br>maintaining and returning personnel                  | 600,000              |
| Excess cost of catalyst, chemicals, and<br>other materials  | <u>750,000</u>       |
| TOTAL   | \$ 29,909,000        |
| Deduct: Profit and facilities charges<br>from sales of 556,000 barrels<br>at 3.063¢ contract signed | <u>9,600,875</u>     |
| TOTAL DEDUCTIONS  | \$ <u>10,316,147</u> |
| TOTAL ESTIMATED DAMAGES   | \$ <u>19,592,853</u> |

NOTE: Whether or not the facilities are worth \$2,000,000, or \$9,500,875 as shown above, depends upon the future and cannot be forecast at this time. However, at the moment the facilities of immediate use to us are valued at approximately \$2,000,000.

Answering your questions as to what the damages to the Government would be under certain specified conditions, and without, of course, committing The Bahrain Petroleum Company to an acceptance of any of these courses of action, it appears to us that the cost to the Government under each situation referred to by you would be as follows:

CASE I - IN EVENT OF A COMPLETE ABANDONMENT OF THE CONTRACT:

The damages in this situation would be the same as in the case of a complete breach of contract as already indicated above namely, \$19,591,853.

CASE II - IN EVENT GOVERNMENT MAKES A FIRM COMMITMENT TO ACCEPT REDUCED QUANTITY OF APPROXIMATELY 4,000 WPD PER DAY:

The damages under such an agreement would be as follows:

|   |                      |
|---|----------------------|
| Damages under Case I  | \$19,591,853         |
| Standby expense 10/23/45 to 4/1/46 at<br>\$11,202 per day for 159 days  | <u>1,781,118</u>     |
| <b>TOTAL</b>  | <b>\$21,372,971</b>  |
| Less: Credit for excess catalyst,<br>chemicals and other materials<br>which will be used if plant<br>operates | 750,000              |
| Less: Credit for recruiting, training,<br>transporting, maintaining and<br>returning personnel                | <u>500,000</u>       |
| <b>TOTAL NET DAMAGES</b>  | <b>\$ 20,022,971</b> |

A new contract would be signed calling for 4,000 WPD from April 1, 1946 to September 30, 1947, at a price based upon a capitalization of \$10,000,875, which would be 11.62% per gallon. The capitalization of \$10,000,875 is arrived at by adding \$2,000,000 to the net value of \$9,500,875 shown under Case I and is due to additional investment which would be necessary to install at Bahrain.

\*To operate the plant at the rate of 4,000 EPD at this time would not lessen the damages but, on the contrary, would increase the cost to the Government on account of the extremely low price that 100-octane aviation gasoline can be purchased for at present, say 9-1/2¢ per gallon; therefore, the 2,192,000 barrels the Government would purchase from us at 13.62¢ a gallon for 548 days (4/1/46 to 9/30/47) would cost the Government \$3,793,037 additional.

\* Total Cost to the Government Case II \$23,816,008

CASE III - SAME AS (II) BUT ASSUME HAVE FAILS TO LIFT THE 4,000 EPD:

\*If we are requested to produce 4,000 EPD under this plan, we would only do so on basis of Case II, and if Government failed to lift the cost to Government would be:

|   |                  |
|---|------------------|
| *Damages  | \$19,591,853     |
| Standby expense 10/23/45 to 4/1/46 at<br>\$11,202 per day for 159 days                  | 1,781,118        |
| Standby charge April 1, 1946 to<br>September 30, 1947 - 548 days at<br>\$11,798 per day | <u>6,574,904</u> |
| Total Cost to Government  | \$27,947,875     |

CASE IV - ASSUME GOVERNMENT WANTED TO TAKE FULL CONTRACT QUANTITY  
(5,810 BARRELS DAY) FROM APRIL 1, 1946, AND HAVING TO USE  
FOR ENERGY TOOK IT TO SEA AND BURNED IT:

|  |                    |
|--|--------------------|
| *Contract quantity 6-13-45 to 9-30-47<br>635 days x 5,810 barrels/day  | 4,951,350          |
| Deduct:<br>Quantity sold   | <u>596,000</u>     |
| TOTAL  | 4,355,350          |
| Sales price at 13.62¢ per gallon                                       | <u>\$5,922,821</u> |
|  | \$20,278,171       |
| Standby expense 10/23/45 to 4/1/46<br>at \$11,202 per day for 159 days | <u>1,781,118</u>   |
| TOTAL COST TO GOVERNMENT   | \$ 22,059,289      |

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**NOTE:** As to this course, it should be pointed out that the contract has already been breached and production discontinued. As a result, any resumption of production to enable the Government to purchase 5,810 EPD would have to be by agreement between the Government and The Bahrain Petroleum Company, and such agreement must take into consideration the damages already sustained by The Bahrain Petroleum Company, as a result of the breach.

**CASE V - SHUT DOWN PLANT FOR SIX ONE YEAR THEN RESUME OPERATIONS UNDER REVISED CONTRACT**

Many assumptions have to be made in answering this question, therefore we assume the following in making our estimated cost to Government:

- \*(a) A fair settlement of The Bahrain Petroleum Company's present claim.
- \*(b) Firm commitment for future operations at rate 5,810 EPD.
- \*(c) That after present surplus of 100-octane aviation gasoline is used up, the present low price of 9.54 will rise to somewhere near contract price of 10.60¢ per gallon.
- \*(d) That Navy will require the output of 5,810 EPD by (A) January 1st, 1947, or (B) January 1, 1948.

\*(A) Assume shutdown until January 1, 1947

\*A fair settlement of present damages with firm commitment for 36 months' production at 5,810 EPD starting

|   |                  |
|---|------------------|
| January 1, 1947:                                      | \$15,000,000     |
| Standby and shutdown expense<br>(10/23/45 to 1/1/47)  | <u>1,050,961</u> |
|   | \$16,050,961     |
| Standby expense payable monthly<br>(1/1/46 to 1/1/47) | <u>2,671,800</u> |
| TOTAL   | \$18,722,761     |

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"If Government feels that aviation gasoline can be bought cheaper than 13.60¢ gallon during the period January 1947 to December 31, 1949, then the cost to Government will be increased by the difference and should be added to above.

(B) Same station until January 1, 1948

|   |                  |
|---|------------------|
| Same as (A) above                                     | \$18,722,761     |
| Plus additional standby expense<br>(1/1/47 to 1/1/48) | <u>2,671,800</u> |
| TOTAL   | \$21,394,561     |

"If Government feels that aviation gasoline can be bought cheaper than 13.60¢ gallon during the period January 1948 to December 31, 1950, then the cost to Government will be increased by the difference and should be added to above.

"Considering the possible military value of the plant in the future (in case of war) in which event the price of aviation gasoline would be secondary, it seems to us Case 7 should be given serious consideration.

"In answer to your question: "Whether the company would be interested in undertaking to furnish the Navy with Navy Mesel and Navy Special fuel oil in lieu of aviation gasoline";

"The Company wishes to state that it would be very interested in discussing an arrangement for the sale of these products which might mitigate the damages referred to above.

"At the conference I think you agreed with us that the only question to be considered at this time is the amount of damages sustained by Harbin, and we are most anxious to arrive at a settlement of the claim by mutual agreement. It is our understanding that you intend to consider the problem further on the receipt of this letter and that in the event sufficient information has not been given to enable you to reach a conclusion, a further conference will be held.

Yours very truly,

/s/ E. V. Harbin."



WFO 46-1908

Under date of February 1, 1946, H. STUART HENDEL, Acting Secretary of the Navy addressed the following letter to the Reconstruction Finance Corporation regarding the contracts for 100-octane aviation gasoline and their terminations:

Reconstruction Finance Corporation  
Office of Defense Supplies  
Washington 25, D.C.

Attn: Mr. George Stoner, Associate Director

Sirs:

"In your letter dated 13 September 1945, you advised that all contracts for the production of 100 octane aviation gasoline had been terminated except those with Richfield Oil Corporation, Sinclair Oil Corporation and Sinclair Refining Company, aggregating production of 5000 barrels per day, and that with The Bahrain Petroleum Company Ltd., amounting to 5810 barrels per day. The letter indicated that as a result of certain discussions with other interested agencies including the Office of War Mobilization and Reconversion, it had been the consensus that cancellation of these excepted contracts would not be in the best interests of the public.

"Since that time a further analysis has been made of present stocks and future requirements of aviation gasoline projected through 30 June 1947. This review indicates that a continuing obligation upon the part of the military to accept the quantity of product indicated above, together with the operational problems imposed thereby, is neither sound logistics nor in the interest of overall economy. Accordingly, it is requested that these remaining contracts be terminated at the earliest possible date.

"As you know, the Bahrain refinery has been closed since October 1945 because of the inability of the military to move accumulated stocks of gasoline previously produced. It is understood that upon receipt of notice of termination, The Bahrain Petroleum Company Ltd., will file a claim for alleged damages resulting from the forced closing of the plant and for the termination of the contract prior to its normal expiration date. In this connection, your attention is invited to the fact that the Company has indicated its willingness to consider a substantial reduction in these alleged damages, if the Government, through the Navy

WFO 46-1906

Department, will contract for certain quantities of Navy Special Fuel Oil and Diesel Oil to be delivered at Bahrain during the period beginning 1 February and ending 31 December 1946. The desirability of accepting these supplies is now being considered by the Bureau of Supplies and Accounts and you will be advised of its decision at the earliest possible date.

Sincerely yours,  
/s/ H. STONE HENSON  
Acting Secretary of Navy

cc: Secretary of War  
Petroleum Administration for War  
Op-122  
APR 2

In connection with this same termination R. S. POWLER of the Fuel Division, Navy Department addressed the following memorandum dated February 26, 1946, to the Purchase Division, U. S. Navy.

From: Fuel Division  
To: Purchase Division (WFO-3)  
Subject: RF Requisition 9-4 dtd 27 February 1946; California Texas Oil Co. (Overseas) Ltd; Navy Special Fuel Oil and Diesel Oil 1 Apr 1946 - 31 Dec 1946  
References: (a) Bahrain Petroleum Co., Ltd., ltr to BuSanda dtd 3 Jan 1946  
(b) Bahrain Petroleum Co., Ltd., ltr to BuSanda dtd 30 Jan 1946  
(c) SecNav ltr to WFO dtd 1 February 1946  
(d) CalTex Oil Co., Ltd., ltr to BuSanda dtd 29 Feb 46  
Enclosures: (A) Subject requisition  
(B) Copy of reference (a)  
(C) Original of reference (b)  
(D) Copy of reference (c)  
(E) Original of reference (d)

\*1. The Bahrain Petroleum Company, Ltd., entered into a contract with the WFO dated 15 March 1943 providing for the construction of a 100 octane aviation gasoline plant at Bahrain Island, Persian Gulf, and for the purchase of its production by the Government at the rate of 5000 barrels per day for a period of three years after completion of the plant. The project was originated by P&I and OSB and Government funds used

part to finance construction. The contract contained a liquidated damage provision in the event of breach or termination.

"2. The plant went on stream 18 June 1945. It was closed down 23 October 1945 due to the failure of the military to off-take the gasoline already produced, thereby breaching the contract. Although requested by the military in August 1945 to terminate the contract, RFC and OMR declined because of the penalty clauses in the contract.

"3. During discussions in late 1945 between the military, RFC and the Company, designed to determine the most practical and economical action to be taken, the Company was asked whether or not it would consider furnishing other military supplies (from its Bahrain facilities other than the Avias plant) instead of aviation gasoline and if so, whether or not such action would mitigate the damages otherwise claimed for breach and/or cancellation. The Company advised in the affirmative as indicated in references (a) and (b). Later the company submitted informally its offer to furnish through its 100% owned marketing subsidiary the California Texas Company (Overseas), Ltd., a minimum of 1,800,000 barrels of 7-0-2 Diesel and 4,000,000 barrels of Navy Special Fuel Oil at firm prices of \$1.58 and \$1.05 respectively, during the period 1 Apr-11 1946 through 31 December 1946. This was subsequently confirmed by reference (d). There will probably be available during the period an additional 3,100,000 barrels of Navy Special Fuel Oil for purchase by the Navy. It is understood that inter-company arrangements and policies require the sale of any product other than aviation gasoline to be made through the marketing subsidiary.

"4. Upon the basis of the information contained in reference (a) and the verbal advice submitted and later confirmed by reference (d), it was determined by WFB and the military to request cancellation of the contract. This was effectuated by reference (c) to which RFC and OMR now agree. A letter identical to reference (c), save for the last paragraph, was addressed to RFC by SecWar.

"5. While not a matter of record because of the possibility of prejudicing the rights of both parties should they fail to reach an amicable termination settlement, the Company's president has nevertheless advised that it will reduce its claim for damages by \$2,571,853 if the supply contract is consummated with the Navy. This Division certifies that the products are needed by the Navy and a firm commitment for the quantity indicated presents no operating problem. The exceptions to the specifications are authorized by DSKips.

\*6. It is requested that an award be made immediately to the company conditioned upon consummation by the Bahrain Petroleum Company, Ltd., of a settlement of the aviation gasoline contract with WPC in which charges are mitigated because of the action of this Bureau. It is suggested that execution of the resulting supply contract by the Government be held in abeyance pending advice from WPC that the gasoline contract has been settled.

\*7. Because of the remote location of the refinery and the ensuing delay in the handling of papers, the Company has requested a special payment clause permitting invoicing upon despatch advice of actual loading. Such an arrangement was authorized for this Company in Contract WFO 12985. Should such a provision be contrary to policy at this time, it is not believed that the point will be pressed too strongly by the Company.

/s/ P. S. Fowler

The awarding officer under Contract W651-151 was indicated as Commander E. V. WENGERHOUS.

W651-2375

This contract was awarded by the U. S. Navy to the Arabian American Oil Company, San Francisco, California, on June 11, 1946, and called for the delivery of the following items from July 1, 1946, to December 31, 1946, from Ras Tanura, Saudi Arabia.

| <u>ITEM</u>                                 | <u>QUANTITY</u> | <u>PRICE PER BBL.</u> | <u>TOTAL</u>                   |
|---|-----------------|-----------------------|--------------------------------|
| 72-Stroke Motor<br>Gasoline                 | 1,472,000 bbls. | \$2.3625              | \$ 3,477,600.00                |
| Diesel Fuel Oil                             | 1,955,000 "     | 1.68                  | 3,284,400.00                   |
| Navy Fuel Oil<br>Special - low<br>viscosity | 6,100,000 "     | 1.17                  | <u>7,137,000.00</u>            |
| <b>TOTAL AMOUNT OF CONTRACT</b>             |                 |                       | <b><u>\$ 13,899,000.00</u></b> |

WFO 46-1908

On October 1, 1946, this contract was modified to add 2,200,000 barrels of Navy Fuel Oil Special at \$1.05 per barrel. This modification was confirmed by Memorandum of October 25, 1946, from the Fuel Division to the Purchase Division which memorandum is as follows:

MEMORANDUM

FROM: Fuel Division, WP-4  
TO: Purchase Division, WP-3

SUBJECT: Contract Woes-2375, Arabian American Oil Company

1. It is requested that subject contract be modified as of 1 October 1946 for liftings under subject contract with the exception of the following vessels on the following approximate dates: CALLAHEE 10/16, CRATER LAKE 10/17, PERT RAINBOW 10/10.

2. Deliveries of Item 3 of subject contract should be considered complete after loading of the above vessels.

3. Arabian American Oil Company suggests the addition to Article I of the subject contract, new items as follows:

| <u>ITEM</u> | <u>DESCRIPTION</u>    | <u>ESTIMATED QUANTITY (BBL)</u> | <u>PRICE PER BARREL</u> | <u>ESTIMATED TOTAL</u> |
|-------------|-----------------------|---------------------------------|-------------------------|------------------------|
| 4           | Navy Fuel Oil Special | 2,200,000                       | \$1.05                  | \$ 2,310,000.00        |

4. Arabian American Oil Company advise that the total quantity of Item 4 shall be available for delivery in cargo lots during the months shown and approximate quantities indicated:

|          |                 |
|----------|-----------------|
| October  | 400,000 Barrels |
| November | 1,100,000 "     |
| December | 700,000 "       |

5. The specifications for Item 4 shall be as follows: Navy Department Specification 7-G-1g dated April 2, 1945, except product shall pass fluidity at 32 degrees Fahrenheit in lieu of passing pour point. Compatibility required under Paragraph 9-4 shall be with reference fuels 4-2, 5-2, 7 and 8 only. If reference fuel 8 is not available a blend of 50% reference fuel 8 and 50% reference fuel 7 may be substituted.

26. Supplies approve the use of the above specifications.

/s/ J. G. Bartell

The following justification signed by D. V. WAGROWICZ,  
Commander, U. S. Navy was attached to the contract in the Case File of the  
Navy Department:

JUSTIFICATION:

1. Buying Officer: The subject award was negotiated by  
Mr. J. H. Collins, Fuel Section, Commodity Purchase Branch and represents  
the lowest possible prices to be obtained in the Persian Gulf Area.

2. Prices: The prices shown in proposed contract are  
firm for the contract period. Prices of the proposed contract are less than  
the CPA ceiling price as well as today's market price in the Gulf area as  
shown below:

| <u>Item No. and Description</u> | <u>Proposed Contract Price per Bbl.</u> | <u>CPA Ceiling Price &amp; Today's Market Price Per Bbl.</u> | <u>Difference Per Bbl.</u> |
|---------------------------------|---|--|----------------------------|
| 1. 72 Octane Motor Gasoline     | 22.3625                                 | 22.415   | -.0525                     |
| 2. Naval Fuel Oil               | 1.68                                    | 1.7475   | -.0675                     |
| 3. Navy Fuel Oil, Special       | 1.17                                    | 1.26   | -.09                       |

3. REASON: This procurement is classified as NSM:

RECOMMENDATION

The subject award is recommended by the Fuel Section, Commodity Purchase Branch.

/s/ D. V. WAGROWICZ, COMMANDER, U. S. NAVY  
Branch of Supplies and Accounts  
By Direction of the Chief of Branch

APPROVED 6/16 1946

E. J. KING /s/

CHIEF OF BRANCH OF THE SECRETARY OF THE NAVY

E. J. KING

CHIEF OF BRANCH, U. S. NAVY

1947-1956

On October 14, 1946 the U. S. Navy awarded a negotiated contract to the Arabian American Oil Company, San Francisco, California calling for the delivery of 787,500 barrels of crude oil at \$1.13 per barrel or a total cost of \$889,875. This oil was destined for delivery to Italy from Ras Tanura, Saudi Arabia in the period October 14, 1946, to December 31, 1946.

The following is a justification attached to said contract:

\*JUSTIFICATION

#1. Buying Officer: The subject award is recommended by Mr. W.C. Drescher, Fuel Section, Commodity Purchase Branch.

#2. General: The following named companies were invited to bid on 887,500 bbls. of Arabian Dammam Crude or equivalent; USRA requirement for Italy, deliveries during October and November. Delivery period has been extended to 31 December in order to provide for any contingency arising through unavailability of vessels for lifting prior to November 30.

Arabian American Oil Co.  
Asiatic Petroleum Corp.  
Anglo Iranian Oil Co.  
Gulf Oil Corp.

Socoxy-Vacuum Oil Co.  
Sinclair Refining Co.  
Standard Oil Export Corp.

Officials of each of the above companies were personally contacted in an effort to insure that the maximum number of suppliers would have full opportunity to bid on this product. The only two companies from which bids were received were the Arabian American Oil Co., and the Asiatic Petroleum Corporation, whose bids are as follows:

ARABIAN AMERICAN OIL CO.

787,500 bbls. at \$1.13 per bbl. f.o.b. Ras Tanura  
(Persian Gulf)

ASIATIC PETROLEUM CORP.

296,000 bbls at \$1.15 per bbl. f.o.b. Bahawal  
(Persian Gulf)

Analysis of shipping rates is as follows:

WFO 46-1908

TO:

FROM:

Italy

Unit Price

Contractual

|                           |         |         |
|---------------------------|---------|---------|
| Vado/Genoa Range.....     | \$ 2.35 | \$ 2.65 |
| Taranto/Bari Range.....   | 1.75    | 2.25    |
| Venice/Trieste Range..... | 0.25    | 0.75    |

\* Source of information — YSA Rate Order No. 438

\*\* Source of information — U.S. Maritime Commission, Freight Rate Division, Mr. Maguire.

\*Analysis of the two bids received indicates that the Arabian American Company has offered the product required at a lower cost, both as to price of product and freight rate involved. Award of contract is recommended to the Arabian American Oil Company.

\*3. RECOMMENDATION: This procurement is classified as "RUSH".

RECOMMENDATION:

\*The subject award is recommended by the Fuel Section, Commodity Purchase Branch.

/s/ T.M. Scazo, Lt. Cdr. (SC) USNR  
for D.V. McEVILUS, Cdr., (SC) USN  
Bureau of Supplies and Accounts  
By Direction of the Chief of Bureau

APPROVED 10/16 1946

/s/ W. F. Moore  
BY DIRECTOR OF THE BUREAU OF THE NAVY

/s/ E.J. Fitzgerald  
CONTRACT SECTION, USN, WFO

On October 23, 1946, this contract was changed to call for 450,000 barrels of crude oil at the price set forth in the contract with additional crude oil to be furnished if necessary.



W651-4207

On November 8, 1946, the U. S. Navy entered into a contract with the Arabian-American Oil Company, San Francisco, California, calling for the delivery of 212,000 barrels of crude oil at \$1.13 per barrel or a total contract price of \$239,560. This contract was a negotiated contract calling for delivery of the crude oil to Italy under a United Nations Relief and Rehabilitation Administration appropriation from December 1, 1946, to January 31, 1947. The purchasing officers under this contract were C. D. FRESCHER and J. H. COLLINS of the Fuel Section, Commodity Purchase Branch, U. S. Navy. Commander D. V. WENZELIUS of the Bureau of Supplies and Accounts recommended the acceptance of said contract.

The following is a Justification attached to said contract which Justification was signed by D. V. WENZELIUS:

\*JUSTIFICATION:

\*1. Buying Officer: The subject award is recommended by Mr. J. H. COLLINS, Fuel Section, Commodity Purchase Branch.

\*2. General: The following named companies were invited to bid on 212,000 bbls. of Arabian Dawson Crude or equivalent; UNRRA requirement for Italy, deliveries during 1 December through 31 December 1947. Delivery period has been extended to 31 January 1947 in order to provide for any contingency arising through unavailability of vessels for lifting prior to December 31st.

Arabian American Oil Co.  
Asiatic Petroleum Corp.  
Anglo Iranian Oil Co.  
Gulf Oil Corp.

Socoxy-Tacuma Oil Co.  
Sinclair Refining Co.  
Standard Oil Export Corp.

\*Officials of each of the above companies were personally contacted in an effort to insure that the maximum number of suppliers would have full opportunity to bid on this product. Arabian American Oil Co. was the only company from which bids were received. Refer to previous clearance #12916, Contract W651-3756.

\*3. Urgency: This procurement is classified as "RUSH."

WFO 16-1900

RECOMMENDATION:

The subject award is recommended by the Fuel Section, Commodity Purchase Branch.

/s/ D. T. WERNERUS, CDR. (SC) USN  
Bureau of Supplies and Accounts  
By Direction of the Chief of Bureau

APPROVED 11/5 1946

/s/ CDR. H. Moore  
IN DIRECTOR OF THE SECRETARY OF THE NAVY

/s/ E. J. Fitzgerald/jde  
CHIEF OF BUREAU, BUREAU OF SUPPLIES AND ACCOUNTS

W65H-1181

On November 22, 1946, the U. S. Navy entered into a contract with the Caltex Oil Products Company of 591 5th Avenue, New York City for the delivery of the following oil products for the period January 1, 1947, to December 31, 1947.

| <u>TYPE</u>          | <u>QUANTITY</u>  | <u>PRICE PER GAL.</u> | <u>TOTAL</u>            |
|----------------------|------------------|-----------------------|-------------------------|
| Nav Fuel Oil Special | 11,700,000 gals. | \$1.05                | \$ 12,285,000.00        |
| Nav Diesel Fuel Oil  | 3,150,000 "      | 1.68                  | 5,292,000.00            |
| Motor Fuel V         | 1,440,000 "      | 2.52                  | <u>3,628,800.00</u>     |
|                      |                  | <u>TOTAL</u>          | <u>\$ 21,205,800.00</u> |

The above products were to be delivered to the U. S. Navy tankers at Ras Tsur, Saudi Arabia, and from Bahrain Island, Persian Gulf. It is to be noted that delivery of the Nav Fuel Oil Special and the Nav Diesel Fuel Oil was to cover the entire year of 1947 while motor fuel V was to be delivered from January 1, 1947, to June 30, 1947.

The following is a Justification signed by J. W. W. Jr., Commander U. S. Navy, Bureau of Supplies and Accounts, which justification was attached to a copy of the contract in the Navy case file.

MEMORANDUM

\*1. Buying Officer: The subject award is recommended by J. E. Collins, Fuel Section, Community Purchase Branch.

\*2. General: Navy's requirements of Navy Fuel Oil Special and Navy Diesel Fuel Oil for lifting at the Persian Gulf for the calendar year 1947 is estimated to be 11,700,000 barrels and 3,150,000 barrels, respectively; the requirement of Motor Fuel #2 for lifting at the Persian Gulf for the period 1 January 1947 through 30 June 1947 is estimated to be 1,440,000 barrels. The following named companies were invited to bid on the requirements set forth above and listed below is the result of this negotiation:

- Socoay Vacuum Oil Co. - Unable to bid
- Gulf Oil Corp. - Unable to bid
- Isiatic Petroleum Corp. - Unable to bid
- Sinclair Refining Co. - Unable to bid
- Arabian American Oil - Unable to bid
- Calif-Texas Oil Co. - Unable to bid
- Anglo-Iranian Oil Co. - Navy Special Fuel Oil - Firm Price of \$1.46 per barrel f.o.b. Abadan, Iran  
Navy Diesel Fuel Oil - Firm price of \$2.205 per barrel f.o.b. Abadan, Iran.  
No quotation offered for Motor Fuel #2.
- Caltex Oil Producing Co. - In the forenoon of 15 Nov. 1946, the Caltex Oil Producing Co. quoted as follows:

|                       | <u>5 No. Contract</u>  | <u>12 No. Contract</u> |
|-----------------------|--|------------------------|
| Navy Special Fuel Oil | \$1.25 per bbl.  | \$ 1.15 per bbl.       |
| Navy Diesel Oil       | \$1.75 " "   | \$ 1.65 " "            |
| Motor Gasoline        | Current price of \$2.425 per bbl. which shall be the top price but will calculate lower on low Platt's Oilgram for U.S. Gulf Price in effect 15 days before loading. |                        |

"After considerable negotiation, the contractor agreed to reduce the price as follows:

|              | <u>6 Mo. Contract</u>  | <u>12 Mo. Contract</u> |
|--------------|--|------------------------|
| Navy Special | \$1.16 per bbl.  | \$ 1.10 per bbl.       |
| Navy Moresl  | \$1.85 " "   | \$ 1.75 " "            |
|              | Current price of \$2.625 per bbl. which shall be the top price but will escalate lower on low Platt's Oilgram for U. S. Half Price in effect 15 days before loading. |                        |

"Subsequent to 15 November 1946, after still further negotiation, the contractor reduced the price as follows:

|                       | <u>6 Mo. Contract</u> | <u>12 Mo. Contract</u> |
|-----------------------|-----------------------|------------------------|
| Navy Fuel Oil Special |                       | \$1.05 per bbl.        |
| Navy Diesel Fuel Oil  |                       | \$1.68 " "             |
| Motor Gasoline        | \$2.52 per bbl.       |                        |

"3. Previous Clearance: For previous clearance refer to Clearance #1287 with California-Texas Oil Co. and Clearance #12786 with Arabian American Oil Co.

"4. Verbal Approval: Verbal clearance was obtained from OAS on 22 November 1946.

RECOMMENDATION

"The subject award is recommended by the Fuel Section, Commodity Purchase Branch.

/s/ J. VERN, JR., CDR (SC), USN  
 Bureau of Supplies and Accounts,  
 By Direction of the Chief of Bureau

APPROVED 12/31 1946

/s/ W. E. Moore  
 BY DIRECTOR OF THE BUREAU OF THE NAVY

/s/ E. J. Fitzgerald  
 ASSISTANT DIRECTOR, BUREAU OF THE NAVY

The following is a Memorandum from Rear Admiral W. A. BUCK to the Undersecretary of the Navy dated December 2, 1947, regarding procurement of fuel oil from the Persian Gulf.

29 December 1947

MEMORANDUM FOR THE UNITED SECRETARY OF THE NAVY

\*SUBJECT: Procurement of Fuel Oil from the Persian Gulf

1. Caltex Oil Products Co. was originally advised last August that Navy petroleum requirements from Persian Gulf sources during the calendar year 1948 would be 14,400,000 bbls. of Navy Special Fuel Oil, 7,200,000 bbls of Navy Diesel Fuel Oil, and 2,560,000 bbls. of motor gasoline. Subsequent to this original estimate it became increasingly apparent that full requirements from the U. S. Gulf and/or Caribbean sources would not be covered and that continued importation of petroleum products to this hemisphere from the Persian Gulf would be necessary. Consequently, Caltex Oil Products Co. was further advised in October that the Navy would be desirous of conducting negotiations on the basis of an estimated requirement from the Persian Gulf of 16,000,000 to 19,200,000 bbls. of Navy Special Fuel Oil, 7,200,000 to 8,400,000 bbls. of Navy Diesel Fuel Oil and 3,600,000 to 4,200,000 bbls. of Motor Gasoline.

2. Following the conference in your office on November 26, 1947, with representatives of Caltex in which you requested further consideration toward increasing quantities of fuel offered and extending the contract period to one year instead of six months, the company has confirmed its previous offer. Quantities, price, and contract period remain unchanged in the latest communication from the company dated December 5, 1947, and are as follows:

Contract Period: 1 January 1948 - 30 June 1948

| <u>Product</u>        | <u>Quantity</u>    | <u>Total</u>   | <u>Price</u> |
|-----------------------|--------------------|----------------|--------------|
| Navy Special Fuel Oil | 1,000,000 bbls/mo. | 6,000,000 bbls | \$2.05/bbl.  |
| Navy Diesel Fuel Oil  | 475,000 bbls/mo.   | 2,850,000 bbls | 1.50/bbl     |
| Motor Gasoline        | 166,666 bbls/mo.   | 1,000,000 bbls | Low quote    |

Platt's Oilgram  
for U.S. Gulf

3. The following excerpts are quoted from the Caltex letter of December 5, 1947:

"If from time to time we have additional quantities available for delivery to the Navy, we will be happy to advise the Navy the amount of such additional quantities of products available and, in event the Navy accepts the additional quantities offered, such quantities are to be delivered under the same terms and conditions as the contract quantities above-named.

"We have very carefully considered the question of entering into a contract to supply additional quantities, but we regret that we cannot agree to make available to the Navy firm quantities in excess of those above-named at this time.

"We have carefully considered the question of extending the terms and conditions of the contract for the second six months of 1948 and regret we cannot offer for the second six months of 1948 at this time as we cannot see further than six months ahead in regard to price.

"We have every reason to believe that sometime during the first six months of 1948 we will be able to offer the Navy a proposition for supplying similar quantities to those above-named for the second six months."

4. The Standard Oil Co. of New Jersey and the Socony-Vacuum Oil Co. which are acquiring a forty per cent interest in the output of the Gas Turbine refinery have each been contacted relative to making available to the Navy petroleum products from that refinery which will not be available to Caltex for direct sale to the Navy. Neither company desires to commit product or discuss price until the effective date of their interest in the Gas Turbine refinery production is firmly established. However, the Standard Oil Co. of New Jersey has indicated that their supply program calls for offering the Navy during 1 January 1948 through 30 June 1948 the following quantities: 1,300,000 bbls. of Navy Special Fuel Oil, 440,000 bbls. of Navy Diesel Fuel Oil, and 120,000 bbls. of Motor Gasoline. If Socony-Vacuum follows the same general formula, an offering from them may be anticipated as follows on the basis that Socony-Vacuum will obtain one-fourth of the forty per cent of the Gas Turbine production: 325,000 bbls. of Navy Special Fuel Oil, 110,000 bbls. of Navy Diesel Fuel Oil, and 30,000 bbls. of Motor Gasoline.

5. Inasmuch as the only firm offer received is for a six month period, a summary on that basis is set forth below:

|                         | One Half<br>Qty. Deliv'd<br>by Caltex<br>During '47 | Orig Navy<br>Est. of<br>Pers. Gulf<br>Requirements<br>During '48 | Revised Navy<br>Est. of Persian Gulf<br>Requirements<br>during '48 | Offers   |
|-------------------------|---|--|--|--|
| Navy Spec.<br>Fuel Oil. | 7,820,660   | 7,200,000  | 9,600,000 to 9,600,000   | Caltex 6,000,000<br>Std. Oil 1,300,000<br>Soc. Vac <u>433,333</u><br>TOTAL 7,733,333   |
| Navy Diesel<br>Fuel Oil | 3,293,947   | 3,600,000  | 3,600,000 to 4,200,000   | Caltex 2,850,000<br>Std. Oil 450,000<br>Soc. Vac <u>116,666</u><br>TOTAL 3,436,666     |
| Motor<br>Gasoline       | 1,071,038   | 1,110,000  | 1,800,000 to 2,100,000   | Caltex 1,000,000<br>Std. Oil 120,000 *<br>Soc. Vac <u>10,000 **</u><br>TOTAL 1,150,000 |

\* Indicated offer

\*\* Probable offer

Note: All figures in bbls.

6. An analysis of the above summary shows that the total of the offerings from the three companies (firm, indicated, and probable) is reasonably close to the total quantity that will be obtained from Caltex during 1947 and original Navy estimate of requirements for 1948.

7. Representatives of the Standard Oil Co. of New Jersey and the Socomey-Pacum Oil Co. have been invited to Washington to finalize current negotiations with those companies.

8. An offer of several hundred thousand barrels of Navy Special Fuel Oil per month from the Anglo Iranian Oil Co. for delivery in America has been received. This offer will be turned down inasmuch as the price quoted is \$2.20 per barrel. The Anglo Iranian Oil Co. advised that it did not have any Navy Diesel Fuel Oil or Motor Gasoline available to offer to the Navy.

9. On the basis of current market prices, the Caltex offer with respect to Navy Special Fuel Oil and Navy Diesel Fuel Oil is considered extremely advantageous to the Government. The price quoted for motor gasoline represents a five per cent increase over that paid under the current contract with Caltex. On the basis of cost the prices quoted for all three products probably represent a handsome profit to the company inasmuch as the cost of crude oil, including royalty payments, has been reported to be as follows; at the Bahrain refinery, 25 cents per barrel; at the Ras Tanura refinery, 42 cents per barrel.

10. Although Navy purchasing of petroleum products has been on the basis of market value, there has been criticism in Congressional quarters of the prices paid for petroleum products purchased by the Navy in the Persian Gulf because of the low cost of production in that area.

11. It is considered that the lowest prices obtainable from Caltex through negotiations on this level have been reached. On the basis of current market prices and in comparison with the Anglo Iranian offer of \$2.20 per barrel for Navy Special Fuel Oil, it is requested that clearance be granted to accept the current proposal made by Caltex.

W.A. Buck\*

WESK-1856

On December 16, 1946, the U. S. Navy entered a negotiated contract with the Arabian American Oil Company, San Francisco, California, calling for the delivery of 1,000,000 barrels of crude oil at \$1.17 per barrel for the period December 15, 1946, to February 28, 1947. The buying officer in this case was J. H. COLLINS of the Fuel Section, Commodity Purchase Branch, U. S. Navy.

The following is a Justification attached to a copy of the contract in the Navy case file:

JUSTIFICATION:

1. Buying Officer: The subject award is recommended by J. H. COLLINS, Fuel Section, Commodity Purchase Branch.



\*2. General: The following named companies were invited to bid on 1,000,000 barrels of Stabilized Heavy Paraffinic Type Arabian Grade or equivalent, UNDA Requirement for Italy, delivered during 15 December 1946 through 28 February 1947.

|                               |                            |
|-------------------------------|----------------------------|
| Southeastern Oil Co. Inc.     | Standard Oil Export Corp.  |
| Shell Oil Company, Inc.       | Asiatic Petroleum Corp.    |
| Anglo-Iranian Oil Co. Ltd.    | Socoxy-Vacuum Oil Co. Inc. |
| Caltex Oil Products Co.       | Sinclair Refining Company  |
| California-Texas Oil Co. Ltd. | Gulf Oil Corporation       |

\*The Arabian American Oil Company was the only company from whom a bid was received.

\*3. Price: The Arabian American Oil Co. originally quoted \$1.23 per barrel. However, this price was negotiated downward to a firm price of \$1.17 per barrel.

\*4. Verbal approval: Verbal approval was obtained from the OAS on 16 December 1946.

\*5. Previous Clearance: Refer to previous clearance #12916 and #12925.

RECOMMENDATION:

\*It is the recommendation of the Fuel Section, Commodity Purchase Branch that the contract be awarded to the Arabian American Oil Co. for the quantity and price indicated above.

/s/ J. VINT, JR. COL. (SC)USA.  
Bureau of Supplies and Accounts,  
By Direction of the Chief of Bureau

APPROVED 12/31 1946

/s/ W. L. Spore  
BY DIRECTION OF THE SECRETARY OF THE NAVY

/s/ E. J. Fitzgerald  
COMMODITY SECTION, OAS, WFO

On or about March 14, 1947, the above contract was amended to increase the quantity of crude oil to be delivered under this contract by 110,000 barrels and the date of delivery was extended to April 30, 1947.

\*\*\*\*\*

For the information of those offices which have not previously received reports in this case the U. S. Navy entered into fourteen contracts for the purchase of oil from the Persian Gulf Area from the California-Texas Oil Company and the Arabian American Oil Company. These contracts covered a period from March 25, 1942, to December 16, 1945, and totaled in excess of \$90,000,000. The oil actually delivered under these contracts amounted to a total of 46,383,542 barrels at a total cost to the U. S. Navy of \$55,190,929.34.

It has been alleged by certain individuals that the cost of production of said oil varies between 33¢ and 40¢ per barrel. The U. S. Navy up until 1945 was paying for fuel oil 85¢ per barrel. After July 1945 the price for fuel oil was raised to \$1.05 per barrel. Prior to September 1945 the Navy was purchasing diesel oil for \$1.25 per barrel. After September 1945 this price was increased to \$1.68 per barrel. The one exception is that in a contract entered into on March 2, 1945, the Navy contracted for 114,000 barrels at \$1.575 per barrel.

Among the allegations made are that the Navy was paying an excessive price for the oil purchased from the Arabian American Oil Company and the California-Texas Oil Company, Ltd. and that this oil could have been purchased by the Navy at a much cheaper rate. It has been further alleged that prior to entering into the first contract with the California-Texas Oil Company the U. S. Navy had been offered the same oil from the Persian Gulf Area for a much less amount but that the oil had been rejected due to the fact that it was unsuitable for Naval use.

Further allegations have been made that officials of oil companies temporarily on the rolls of the Government Service had influenced the Navy Department to purchase oil from their companies at a high price.

ENCLOSURES TO THE BUREAU - Two copies of the case files and working papers of the fourteen contracts under investigation.

Two copies of the tender landing reports showing deliveries to the Navy from the Refinery at Los Angeles.

LEADS

THE NEW HAVEN DIVISION

AT GREENWICH, CONNECTICUT - At 150 Park Avenue will ascertain the exact status and position and whereabouts of MAX TRIPKINS and if out of the country his probable date of return to the United States. If he is available will interview him regarding his activities in connection with the negotiation of contracts between the California-Texas Oil Company, the Arabian American Oil Company, and the U. S. Navy.

THE LOS ANGELES DIVISION

\* AT LOS ANGELES, CALIFORNIA - Will interview D. C. ROSENWALD, General Petroleum Company, 108 West Second Street, who was formerly petroleum products negotiating officer of the Bureau of Supplies and Accounts, U. S. Navy from 1943 to 1946. He should be thoroughly interviewed as to his part in negotiating the contract with the Arabian American Oil Company and also his part in negotiating for purchase of oil from the California Texas Co. Particular attention should be paid to any statements made by the oil company officials in this negotiation to the effect that the royalty would be \$24 per barrel and the circumstances surrounding such statements.

In the interview with D. C. ROSENWALD attention is called to the justification attached to Contract 10985 in which it is set forth that the royalty was increased from \$14 to \$24.

THE NEW YORK DIVISION

\* AT NEW YORK CITY, NEW YORK - Will interview W. H. HENSON, Chairman of the Board of Bahrain Petroleum Company, Ltd., and California Texas Oil Company, Ltd., concerning the terms of an agreement made between the Anglo-Iranian Oil Company, Ltd., and the Bahrain Oil Company regarding oil field operations of the refineries of the two organizations. It has been alleged that a provision of the agreement is that if prices quoted by Bahrain should cause Anglo-Iranian to suffer a loss on that cargo, Bahrain would make up that loss.

Will interview A. I. McHILL, 315 East 68th Street, New York City, now with the Shell Oil Company and formerly officer in charge of the Purchase Section, Fuel and Lubricants, Bureau of Supplies and Accounts, U. S. Navy, concerning his part in the negotiations for the original contract with the Arabian American Oil Company, and obtain from him full details concerning

WFO 46-1908

THE NEW YORK DIVISION (Continued)

said negotiations, both with the Arabian American Oil Company on their first contract and any subsequent contracts. Will also interview him regarding the details of negotiations in which he might have taken part with the California Texas Oil Company for oil for the Navy. Will also ascertain the exact status of his authority in the Navy for negotiating for oil, both as to fixing prices and authority to purchase.

In the interview with A. A. MacRILLIE will ascertain additional identifying data regarding Mr. TATE, Mr. McVICKER, and Mr. RIMMART referred to by him in his testimony before the Senate Committee.

THE SAN FRANCISCO DIVISION

\* AT SAN FRANCISCO, CALIFORNIA - Will obtain from CARL H. BERKHUIS, Comptroller, Arabian American Oil Company, 200 Bush Street, complete details as to the cost of production of all products sold to the Navy under the contracts set forth in this report. This should be broken down into detail in order that a comparative cost schedule might be set up. Will also ascertain from BERKHUIS the details of renegotiation of any contracts held between the Arabian American Oil Company and the U. S. Navy.

\* Will interview FREDERIX MARSHALL JAYNE, employed by the Standard Oil Company of California at 225 Bush Street and ascertain from him any discussion he might have had with Commander MacRILLIE or any other Navy official regarding Arabian Oil prices prior to the consummation of the original contract with the Arabian American Oil Company on July 9, 1945.

THE WASHINGTON FIELD DIVISION

AT WASHINGTON, D. C. - Will obtain the symbol number and name of disbursing officer on the 15 contracts and thereafter endeavor to ascertain certified photostatic copies of said contracts from the General Accounting Officer.

\* Will, from the State Department, endeavor to ascertain if there is available a copy of the Red Line Agreement of 1920 contracted by share-holders of the Iraq Petroleum Company, together with any supplement thereto.

\* At the Reconstruction Finance Corporation will ascertain the nature and extent of the renegotiation by the Price Adjustment Board and the RFC of contracts made by the Arabian American Oil Company for sale of petroleum products in 1945.

WFO 46-1908

THE WASHINGTON FIELD DIVISION (Continued)

\* Will obtain copies of a letter written January 26, 1946, by JAMES FRED DICK to another company official regarding expenses for 1946 and the allocation of all possible charges to that year. Inquiries should be made covering the nature and extent of the Arabian American Oil Company contracts for 1946 in order to determine to whom the latter referred to in the phrase "the company might be embarrassed with people with whom it had contracts should its net be excessively high."

\* Will after  are received from the Bureau, prepare an analysis of same.

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# FEDERAL BUREAU OF INVESTIGATION

Form No. 1  
THIS CASE ORIGINATED AT **WASHINGTON, D. C.**

FILE NO. **46-1352**

|   |                                  |   |  |
|---|----------------------------------|---|--|
| REPORT MADE AT<br><b>LOS ANGELES</b>  | DATE WHEN MADE<br><b>2/12/48</b> | PERIOD FOR WHICH MADE<br><b>2/3, 4/48</b> | REPORT MADE BY<br><b>JAMES E. DALEY (A)</b>            |
| TITLE<br><b>UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS</b> |                                  |   | CHARACTER OF CASE<br><b>WAR FRAUD CLAIM CIVIL SUIT</b> |

**SYNOPSIS OF FACTS:**

**D. R. BODENSCHATZ** reluctant to discuss his participation relative to negotiating Navy contracts without having available Navy files to refresh his recollection. He previously testified before Brewster Committee and would prefer that reliance be placed on his testimony at that time. **BODENSCHATZ** stated he did not negotiate Navy contract with **ARAMCO** for crude oil but wrote memorandum of justification. Stated information relative to \$.42 per barrel royalties was given to him by **MAC KILLIE** and that he had no contact with oil company's representatives on that contract. He would make no comments on contracts he negotiated for Navy with California-Texas Oil Company.

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**REFERENCE:**

Bureau File **46-13326**.  
Report of SAA **John E. Cook**, Washington, D. C., **2/7/48**.  
Report of SAA **J. Bernard Cook**, Washington, D. C., **2/6/48**.

**DETAILS:**

**DONALD E. BODENSCHATZ**, 459 Fairview Avenue, Arcadia, California, was interviewed on February 3, 1948, in the office of the **GENERAL PETROLEUM CORPORATION**, Room 719, 355 South Broadway, Los Angeles, California, where he is presently employed in the Export Department. **BODENSCHATZ** entered the United States Navy in April, 1943, and was placed on inactive duty in January, 1946. During that time he was engaged as Fuel Negotiation Officer representing the United States Navy in the negotiation of contracts for the purchase of fuel to meet Navy requirements. When interviewed, he advised

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| APPROVED AND FORWARDED<br><br>SPECIAL AGENT IN CHARGE | DO NOT WRITE IN THESE SPACES<br><div style="font-size: 2em; font-weight: bold; margin-top: 10px;">46-13326-11</div> | FILED<br>15 FEB 18 1948<br>FBI |
| WASHINGTON FIELD (46-1908)<br>7 2/12/48<br>McC. [unclear] 4/18/48  |   | INDEXED<br>EX-91               |

desired to cooperate in this investigation in every way; however, he did not desire to furnish any written statement in view of the fact that in November, 1947, he was thoroughly interrogated before the Brewster Committee concerning his participation in the negotiation of certain Navy contracts. He stated he would much prefer to have the Department rely on his testimony before the Committee since at the time he testified he had the Navy records before him to refresh his recollection. Mr. BODENSCHATZ advised that he had no objections to being asked specific questions concerning specific contracts but he did not want to be placed in a position of making a statement at this date which would in any way conflict with his testimony before the Committee.

Mr. BODENSCHATZ was asked specifically to relate the part he played in the negotiation of Navy Contract #5axll-10985 with the ARABIAN AMERICAN OIL COMPANY dated July 9, 1945, in the amount of 850,000 barrels of crude oil. In this connection he stated he did not negotiate this contract with any representative of the oil company but that such negotiation was conducted by his superior officer, Commander A. A. MAC KRILL. BODENSCHATZ had previously advised Agent, as set forth on page 2 of the report of the writer dated June 25, 1947, in the case entitled, "AMERICAN ARABIAN OIL COMPANY; CALIFORNIA ARABIAN STANDARD OIL CO.; FRAUD AGAINST THE GOVERNMENT (Wash. Field File 46-1411), that he was personally acquainted with H. G. BENHAM, Manager of Sales, ARAMCO, with whom he negotiated Navy Contract #5axll-10985. It was not until he was shown the Navy files when giving testimony before the Committee that he realized that he did not negotiate this contract but that the same was negotiated by MAC KRILL. He advised that after this contract was negotiated by MAC KRILL the latter requested him to draw up a memorandum of justification for the contract and at the same time furnished him with information which BODENSCHATZ incorporated in the justification, Clearance Number 12412, Paragraph 3(b), as set forth on Page 63 of referenced report dated January 7, 1948. Mr. BODENSCHATZ advised that since he himself participated in no conferences with any of the oil company's representatives regarding the contract, this information must have been supplied to him personally by MAC KRILL. Mr. BODENSCHATZ stated that since he had never conferred with the oil company's representatives on this contract, the information as set forth in Paragraph 3(b) concerning the representatives of the oil company's statement that the current royalty to the King of Arabia was then totaling \$.42 per barrel as compared to the former \$.21 per barrel must have come from MAC KRILL. He stated that he personally was not acquainted with the amount of royalties being paid to the King of Arabia and he personally never at any time discussed such a subject with the oil company's representatives on this contract. He pointed out that the memorandum of justification was written after the contract was awarded. He stated that such a step was not unusual. Sometimes such memoranda were drawn up a few days before the contracts were awarded and sometimes afterwards; it depended upon the urgency of the contract. Mr. BODENSCHATZ stated that in drawing up the memorandum of justification on Navy Contract #5axll-10985, the data beginning with the sentence, "A review of P.A.N.'s files on the BAHRAIN PEROLEUM," etc., Paragraph 3, Part C, and con-

timing with the completion of the memorandum was obtained by him.

Mr. BODENSCHEITZ was asked if at the time of the writing of the memorandum of justification he raised a question concerning the price of \$1.05 per barrel. He replied that he did not recall.

When previously interviewed on June 24, 1947, as set forth in the reference above, he stated that he did have some recollection as to differences of opinion regarding the prices asked for in the contract. He now states that by such differences of opinion he had reference to Paragraph 4, entitled "Price Analysis of the Memorandum of Justification," wherein he mentioned, "As this was a subject of dispute between Government and BARRON over a period of several months, . . . . ."

Mr. BODENSCHEITZ stated that he had no knowledge at the time the memorandum of justification was written that crude oil was originally offered to the Navy at \$.40 per barrel.

Relative to the contracts which BODENSCHEITZ negotiated for the Navy with the CALIFORNIA-Texas OIL COMPANY as set forth in Page 51 of referenced report of January 7, 1948, Mr. BODENSCHEITZ stated that he had no independent recollection concerning the negotiation of those particular contracts over the many other contracts that he negotiated while he served in the Navy. For this reason, he stated that he would prefer not to make any statement concerning the negotiation of those contracts.

During the course of the interview with BODENSCHEITZ, he appeared to be reluctant to discuss the part he played in any negotiation for Navy contracts. When he was first contacted on February 3, 1948, he appeared to be very cooperative and willing to discuss this case. He at first indicated a willingness to furnish a signed statement. He began dictating a statement for Agent to the stenographer in his office but the taking of the statement was interrupted as BODENSCHEITZ had a luncheon appointment. When BODENSCHEITZ returned after luncheon at about 2:30 p.m., he informed Agent that he had been thinking the matter over and decided that he did not think he would make a signed statement in this case because of the fact that he had previously testified in detail before the Brewster Committee. Agent then made notes concerning the matter which he had incorporated in the dictation of his statement but before the notes were completed BODENSCHEITZ stated that he had to leave the office to fulfill an appointment. When BODENSCHEITZ was recontacted in the office on the morning of February 4, 1948, he informed that he did not wish to discuss the matter any further.

RETURNED FROM CONFIDENTIAL SOURCE OFFICE OF ORIGIN



Office Memorandum • UNITED STATES GOVERNMENT

TO : DIRECTOR, FBI

DATE: 2/15/48

FROM : SAC, SAN FRANCISCO

SUBJECT: UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS,  
WAR FRAUD CLAIM CIVIL SUIT.

Rerep JOHN B. COCK, Washington, D.C., dated 1/7/48.

In the absence of EARL H. BLEEKHUIS, Comptroller, Agents of this office contacted G. A. KELLENBERG, Assistant Comptroller, Arabian American Oil Company, San Francisco, California on February 11, 1948 concerning the investigation requested in referenced report. Mr. KELLENBERG called in Mr. FRANKLIN W. BATES, Counsel, to assist in the discussion. Agents were advised that the Arabian American Oil Company desired to cooperate with the Government in this inquiry; however, Mr. BATES indicated that the company desired to withhold all information concerning their costs until such time as they had received a letter from the Attorney General setting forth the following information:

- (1) The basis for the Government's request for cost information from the files.
- (2) The material desired. In this regard he desired that the letter specifically state the type of information desired and the extent of it.
- (3) The purpose of the inquiry. He desires to know whether this is a Civil or Criminal matter and the statute which has allegedly been violated.

It was pointed out to Agents that the Arabian American Oil Company has already furnished considerable cost data to the Brewster Committee and it was Mr. BATES' opinion that this was a request for the same information in a different form. In this regard Mr. BATES stated that he had seen a copy of the letter which Senator BREWSTER wrote to Attorney General TOM CLARK concerning the Navy contracts with Arabian American and his reaction to the letter was that it contained no allegations of any violations on the part of the company.

Concerning renegotiations, Mr. KELLENBERG advised that Arabian American had both renegotiated on numerous contracts with the Navy and these records are available at the office of Mr. W. J. GEOFFROY, Price Adjustment Board, RFC, 811 Vermont Avenue, N.W., Washington, D.C. It was his observation that the information now being requested has already been furnished the Price Adjustment Board and should be available at the above address.

C I R A

*W. J. Geoffrey*  
*2/24/48*

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144-13326-100  
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15 FEB 16 1948

Ltr. to Director, FBI

Re: U.S. NAVY CONTRACTS FOR  
PURCHASE OF SAUDI ARABIAN  
PETROLEUM PRODUCTS.  
WAR FRAUD CLAIM CIVIL SUIT.

2/13/48

Mr. KELLEHER further advised that no cost data on sales by the California Texas Oil Company was available in San Francisco. He said this information could be obtained from Mr. S. C. STACEY, California Texas Corporation, Chrysler Building, New York City. In this regard it is requested that the New York Office cover that portion of the lead set out for San Francisco in referenced report that deals with ascertaining production costs on oil products sold to the Navy by California Texas Corporation.

The Bureau is requested to advise whether the letter requested can be furnished by the Department. All investigation is being held in abeyance by this office pending receipt of the above mentioned letter.

JAD:he

45-1186

AIR MAIL-SPECIAL DELIVERY

CC: NEW YORK (AMSD)

CC: WASHINGTON FIELD (AMSD)

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1  
THIS CASE ORIGINATED AT **WASHINGTON FIELD**

EP FILE NO. **46-231**

|   |                                 |   |  |
|---|---------------------------------|---|--|
| REPORT MADE AT<br><b>EL PASO, TEXAS</b>   | DATE WHEN MADE<br><b>2/6/48</b> | PERIOD FOR WHICH MADE<br><b>1/31/48</b> | REPORT MADE BY<br><b>WALLACE R. HEITMAN</b> <span style="float: right;">mjd</span> |
| TITLE<br><b>UNITED STATES NAVY CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS</b> |                                 |   | CHARACTER OF CASE<br><b>WAR FRAUD CLAIM CIVIL SUIT</b>                             |

**SYNOPSIS OF FACTS:** **A. W. RUTTER**, Sergeant-Rutter-Wilbanks Oil Co., El Paso, Texas, advises he was Captain in Charge, Fuel Division, Bureau of Supplies and Accounts, U.S. Navy Department, Washington, D.C., at time contract **W5SL-11-10985** negotiated and at which time Commander **A. A. MACKRILL** was attached to purchase section, Bureau of Supplies and Accounts. **RUTTER** states **MACKRILL** approached him regarding cost of oil and instant contract and **RUTTER** told him that the Navy needed oil badly and to get the oil as cheaply as possible but to get it. **RUTTER** did not think price of \$1.05 high for oil at that time; He advises there was no pressure on him to make instant contract.

- R U C -

**REFERENCE:** Bureau file **46-13326**  
Report of SA **JOHN B. COOK**, Washington Field, 1/7/48

**DETAILS:** At El Paso, Texas

Mr. **A. W. RUTTER**, partner in the Sergeant-Rutter-Wilbanks Oil Company, was interviewed at his office in the El Paso National Bank Building on January 31, 1948. Mr. **RUTTER** advised that he had recently been contacted on the telephone by a person who identified himself as an attorney for the Brewster Committee in Washington. Mr. **RUTTER** stated that he gave this person information concerning what he remembered about the negotiations for Navy contract for oil no. **W5SL-11-10985**.

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| SPECIAL AGENT<br>IN CHARGE<br><i>[Signature]</i>   | DO NOT WRITE IN THESE SPACES                                |
| COPIES OF THIS REPORT<br>3 Bureau<br>2 Washington Field<br>1 El Paso<br><b>FEB 11 1948</b><br>10-11-48 | 46-13326-53<br>RECORDED<br>INDEXED<br><b>32 FEB 10 1948</b> |

Mr. RUTTER stated that during the period of negotiation for this contract, he was a Captain in the U.S. Navy, and in charge of the Fuel Division of the Navy Bureau of Supplies and Accounts, and that Commander A. A. MACKRILLE was attached to the Purchase Division of the Bureau of Supplies and Accounts and was assigned certain duties by RUTTER in the Fuel Division.

RUTTER stated that at this time the Navy was attempting to build up a stock pile of ten million barrels of oil to be stored on the Pacific coast for operations in the Pacific. He stated that accordingly, the Navy was in dire need of oil and was buying oil at every place available.

RUTTER advised that there were many contracts negotiated by his division every day of the week for many weeks, and that the contract in question, which is a Navy contract with the Arabian-American Oil Company, which is number H5SL-LL-10985, dated July 9, 1945, is only one, and not even a major contract of many that were being made constantly by this division. RUTTER advised that the only reason he remembers this particular contract is that Commander A. A. MACKRILLE had approached him asking advice concerning this contract. MACKRILLE told him that he would be able to make the contract on a basis of \$1.05 per barrel for oil. MACKRILLE, thinking this price was rather high, asked RUTTER for his advice. RUTTER stated to the reporting agent that he remembers telling MACKRILLE that the Navy needed the oil very badly in order to fill the stock piles and that he told MACKRILLE to get the oil as cheaply as possible, but in all events to make the contract for the oil.

RUTTER volunteered the information that he believed then and believes now that the price of \$1.05 per barrel for oil in the Near East or in the U.S. is and was cheap. He stated that he thinks this price was entirely fair, in view of constantly rising prices beginning in 1941 up until the time that the oil companies, at the instigation of LEO HENDERSON, Administrator of OPA, pegged their oil prices. RUTTER advises that the U.S. oil companies had had oil pegged at \$1.25 by the OPA, when in reality that same oil had been previously selling for \$1.50, a barrel. This oil, stated RUTTER, was 40 gravity. He stated that he just gave this as an example why he believed the price of \$1.05 for the oil in instant contract was fair, regardless of its quality.

RUTTER informed the interviewer that he had not actually substantiated this statement through statistics, but that he believed the purchase of the oil in instant contract at the price of \$1.05 per barrel in the Near East was in reality cheaper than oil which could be purchased at a lesser price in the U.S. because of the difficulty involved in the transportation of the oil from the U.S. to some military areas. He stated that in other words, while oil in the U.S. was cheaper, oil purchased in the Near East could be either used in the Near East or transported by some shorter method to some zone of operations at a far cheaper rate than it could be transported from the U.S. to that zone of operations.

EP 46-231

Mr. BUTTER emphasized again that this contract was just one of many going through this division day by day, and that there had been absolutely no pressure from anyone to force this contract through, contract number K5SX-LL-1098.

REFERRED UPON COMPLETION TO THE OFFICE OF ORIGIN

## Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. A. Rosen

FROM : L. R. Pennington

SUBJECT: ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

DATE August 7, 1947

PURPOSE:

The purpose of this memorandum is to advise investigation in this matter has been completed and to summarize the results thereof.

BACKGROUND:

The Department, by memorandum dated March 11, 1947, requested a complete and thorough investigation of the complaint received by the Department alleging possible fraudulent activities on the part of unknown Navy personnel in connection with the awarding of a Navy contract in 1945 for purchase of oil from the Arabian American Oil Company, formerly known as the California Arabian Standard Oil Company. It was alleged subject company offered to sell gasoline, diesel oil, and fuel oil to the U. S. Government in 1941 at a stipulated price but such offer was not accepted. In 1945 the Navy entered into a contract for the purchase of oil from subject company at prices approximately 100% higher than prices offered in 1941. Further allegation was to the effect certain high officers of the Navy may have sponsored the contract at the higher prices in an irregular manner.

RESULTS OF INVESTIGATION:

Investigation revealed the Navy declined to purchase the oil offered in 1941 because of the following reasons: high sulfur content in oil; over-production of oil in United States at the time; the Mediterranean was closed to American shipping which would result in heavy traffic costs and incompatibility of the oil. Justification for purchase of the oil from subject company in 1945 was as follows: sulfur content was decreased; change of world conditions creating great demand for oil being used in Western Pacific area; suitable for general naval use and great demand for oil made it unnecessary to mix oil from subject company with oil obtained from other sources. It was further revealed oil procured for use for naval forces west of Pearl Harbor, if obtained at nearest and lowest priced American source, would cost approximately 42% more than prices paid subject company.

Interviews with Navy personnel and personnel of subject company responsible for negotiating the contract in question, failed to disclose any irregular activity.

RECENT DEVELOPMENTS:

Upon conclusion of the investigation, by memorandum dated August 7, 1947, the matter was referred to the Department with the request for advice as to whether further inquiry was desired.

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# FEDERAL BUREAU OF INVESTIGATION

Form No. 1  
THIS CASE ORIGINATED AT

WASHINGTON, D. C.

FILE NO. 16-531 AND

|  |                                 |  |  |
|--|---------------------------------|--|--|
| REPORT MADE AT<br><b>MIAMI, FLORIDA</b>  | DATE WHEN MADE<br><b>7-2-47</b> | PERIOD FOR WHICH MADE<br><b>7/16-18, 21, 23/47</b> | REPORT MADE BY<br><b>JOHN A. HANLEY, III</b>             |
| TITLE<br><b>ARABIAN AMERICAN OIL COMPANY<br/>CALIFORNIA ARABIAN STANDARD OIL COMPANY</b> |                                 |  | CHARACTER OF CASE<br><b>FRAUD AGAINST THE GOVERNMENT</b> |

**SYNOPSIS OF FACTS:**

**CARL J. BARTHELEMS** - employed by Standard Oil Company of California, on July 5, 1934, as engineer and technician in California oil field; was transferred to Sales Department in the Chicago and New York offices in 1938; was subsequently transferred to the Engineering Department of ARAMCO in October, 1943, assisting in the development of the Ras Tanura Refinery, Saudi, Arabia. He was later made Washington representative of the ARAMCO and along with HARVEY S. DEKORF, sales manager, negotiated contracts with the Navy Department for the sale of crude oil, Diesel and fuel oil. **BARTHELEMS** claims prices charged were dictated by the officials of ARAMCO, based upon obtaining as much as the traffic would bear and relying upon the fuel quotations set up in the Gulf District, and that the actual costs of production were never considered in arriving at any price. **BARTHELEMS** indicated pressure was brought to bear on Navy contract negotiators by Company officials through highly placed Navy and Governmental officials and that most of the Navy Governmental officials are now on the payroll of the Standard Oil Company or a subsidiary thereof. **BARTHELEMS** claims he was summarily dismissed on January 17, 1947, after which time he made public his knowledge of the excessive profits.

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G. L. R. - HANLEY

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| APPROVED AND FORWARDED<br><i>C. H. [Signature]</i>        | DO NOT WRITE IN THESE SPACES | RECORDED |
| COPIES  | 7-12521-39                   | INDEXED  |
| COPIES OF THIS REPORT                                     | 23 AUG 5 1947                | 125      |
| 5 - Bureau<br>3 - Washington Field (16-1644)<br>3 - Miami |                              |          |

46-634

**REFERENCE:**

Bureau File Number 46-13326.

Report of Special Agent (A) J. HERALD COOK, dated July 3, 1947, at Washington, D. C.



IN 15-634

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MM 46-634

DETAILS:

AT ST. PETERSBURG, FLORIDA:

CARL J. BARTHELMES, 3713 48th Avenue North, who can be contacted through Box 1393 same city, furnished all the information contained in this report relative to his knowledge of the establishment of the ARABIAN AMERICAN OIL COMPANY Refinery in Saudi, Arabia. Except where stated, the information furnished by BARTHELMES was obtained by him from rumor and conversation with other officials of the Company and the U. S. Government. He was prompt to state that the information furnished by him was from this source and in most instances could not be substantiated through any records in the Navy Department or in the files of the Standard Oil Company or its subsidiaries.

#### I. HISTORY OF ERECTION OF REFINERY IN SAUDI, ARABIA.

BARTHELMES stated that he was not connected with the ARABCO in an official capacity until sometime in 1945. However, from a review of his records and from conversations as previously noted, this plant set up a refinery in Saudi, Arabia, which was undertaken sometime during 1933, or even perhaps several years previous. At that time oil concessions were purchased from the Arabian Government and leases were obtained on oil property in that country, located at and designated as the Dammam Fields, Qatif Field, and the Abqaiq Field. He stated that at the time of the original concessions that royalties would be paid to the King on the basis of approximately twenty two cents per barrel for each barrel pumped, and that this royalty was at that time predicated upon a gold basis, which if presently paid, would be considerably more than the twenty two cents originally agreed upon.

The Government Representatives for Saudi, Arabia, were successful in obtaining a ten million dollar loan from the Export, Import Bank of the United States, the basis of payment of which loan was to be guaranteed from the amounts received from oil royalties. In effect, this meant that the royalties were to be received from the Standard Oil Company of California and the Texas Company, who are joint owners of the subsequently incorporated Arabian American Oil Company, as there were no other oil fields capable of producing oil in that country.

As time went on, considerable pressure was brought to bear by the officials of the ARABCO to be sure that the oil refined by that Company in Saudi, Arabia, would be sold to the U. S. Navy or some other Governmental Agency, as these were the only available purchasers at the time of the development

of the refinery in Saudi Arabia. As a result of this pressure and the threat that the Government of Saudi Arabia would not be able to meet its payments of its loan from the Export, Import Bank, entangled the U. S. Government into a maze of obligations which more or less forced them to enter into negotiations with the ARAMCO. According to Mr. BERTHELMES it was either a question of the Government purchasing the oil of Saudi Arabia, being in default on their loan, and the Oil Company, who was in the middle, was using this threat to cause the Government to become crushed in the negotiations.

Part of this time a British Oil Company was formed on the Bahrain Peninsula, which Company had numerous American stock holders. The Bahrain Company, which was incorporated in Hawaii, entered into negotiations with the Petroleum Administration for War, hereinafter designated PAW, for the sale of a large quantity of high octane gasoline. Upon submission of justification for the high price charged by the Bahrain Petroleum Company, the Defense Supplies Corporation refused to accept the shipment of high octane gas and negotiations were thereafter made with the PAW, which later voided the contract and the high rates contained therein.

Mr. BERTHELMES stated that during the time original negotiations were undertaken for the erection of the physical plant at Ras Tanura he was handling the engineering details for the ARAMCO and that they had considerable difficulty obtaining priorities for the obtaining of critical material and personnel. He indicated that he was in constant conference with officials of the JPB, FEI, and other Agencies Boards, which were instrumental in the allocation of critical material to the necessary projects. He indicated all of the plans which were drawn up by the Engineering Department of the ARAMCO and the engineers representing the above mentioned Governmental Agencies for the erection of a 50,000 barrel per day refinery. He stated that all the contracts were arranged and that subsequently the refinery was built as agreed, but that shortly after the refinery went into operation it was "suddenly" noted that the refinery had a capacity of 90 to 100,000 barrel production per day. BERTHELMES stated this was apparently from a slight error of miscalculation on the part of the Company engineers and the Governmental officials responsible. In this connection he was at a loss to understand how such a miscalculation could have passed under any type of scrutiny, and appeared to be an intentional omission of the building permit given by the JPB and the FEI. He indicated that this was of a serious nature inasmuch as a building of a 100,000 barrel refinery required considerable more critical material, which material could have been devoted to more essential use in the war effort. It was his belief that there were some improper actions being taken by the Company and Governmental officials responsible for the erection of the refinery themselves.

In connection with the erection of the refinery, Admiral A. F. CARTER was the Executive Officer of the Army-Navy Petroleum Board, hereinafter designated as ANPB, and it was through Admiral CARTER that the plans for the erection of this refinery were undertaken and approved. It was indicated that Mr. C. S. SHOODASS was then Director of the Foreign Refinery Division of the PAI, and that Mr. JAMES THOMAS DUKE was likewise employed in an Executive capacity for the PAI. He stated that after the approval of the erection of the refinery was undertaken by CARTER and DUKE, the latter immediately resigned from the Government and accepted a high position with the ARMOCO. He was certain that DUKE was well acquainted with the details in the construction of this refinery as was Admiral A. F. CARTER, and that it was at least gross negligence on their parts to permit the erection of a 90 to 100,000 barrel refinery under an authorization for a 50,000 barrel per day refinery.

In addition, Mr. BETHLEHEM stated that although he was not in the Accounting Department of the ARMOCO at the time, he was aware of the fact that the Bureau of Internal Revenue had a section within the WFB which dealt with the issuance of certificates of necessity. He stated that these certificates of necessity were granted for war plant construction and gave to the builders amortization privileges, which were of a material assistance from a taxation point of view. He did not know whether the basis of the amortization was on the total capital investment or whether it was predicated upon the net income, but he indicated that the amortization was granted for a period of approximately ten years, and was a favorable privilege for the contractors.

As a condition precedent to the obtaining of a certificate of necessity, Mr. BETHLEHEM stated it was necessary that the engineer or some responsible Company official had to sign an affidavit to the effect that no preliminary construction had been undertaken prior to the issuance of the certificate of necessity. He stated that he knew as a matter of fact that considerable grading and preliminary foundation work had been undertaken by the Company prior to the issuance of any of the certificates of necessity. He indicated that five certificates had been issued to the ARMOCO by the WFB and the Bureau of Internal Revenue, and that those five certificates were issued for the construction of the following:

1. Refinery.
2. Wharf and pier.
3. Power plant.
4. Stabilizers.
5. Machine shops.

II. BACKGROUND AND EXPERIENCE OF CARL J. BERTHELMES.

Mr. CARL J. BERTHELMES stated at the time of interview he was thirty eight years of age, married and had three children. He indicated he attended the University of Alabama, receiving a BS Degree in 1931 in Mining Engineering and subsequently completed graduate work in this same subject at the University of California. He stated that he was employed by the Standard Oil Company of California, on July 5, 1934, in the Natural Gasoline Department, Taft, California, and subsequently transferred to the Kottmann Hills Field in 1935, where he worked in the Laboratory conducting field tests, incorporated with various Departments in controlling the flow of wet gas to absorption plants. He indicated during this time he conducted tests whereby results were used as the basis for sale of millions of cubic feet of natural gas to the Pacific Gas and Electric Company and the Southern Natural Gas Company.

BERTHELMES stated he was subsequently transferred to the Richmond Refinery of the Standard Oil Company of California, in November, 1938, where he spent six weeks studying refining procedure on special products, after which he was sent to the San Francisco Home Office and subsequently transferred to the Sales Department of the Chicago Office where he handled the sales of special products in fourteen states east of the Rockies and national contracts. During this time he also conducted research problems regarding lubricating oils with firms such as General Motors, Chrysler Corporation, Timken Roller Bearing Company and others.

In 1941 BERTHELMES stated he was transferred to the New York Office of the Standard Oil Company of California where he worked out the handling of problems pertaining to national contracts, special products, and similar related sales. In October, 1943, BERTHELMES added he was transferred to the ARMO and stationed in the New York Office where he worked on the development of some ten plans for the construction of a refinery at Bas Tazara, which plans were submitted for approval to the Petroleum Administration for War, with the result that in January, 1944, he was transferred to Washington, D. C., as Washington Representative and Engineer in Charge of all matters where Government assistance was required in order to assure successful completion of the Bas Tazara Refinery.

As work in Washington in connection with the construction of a refinery drew to a completion, BERTHELMES was transferred to a newly established sales department, wherein it was his duty to carry out contract negotiations and the scheduling of tenders with the Government where ARMO products were concerned.

He stated that in handling sales work he was responsible directly to HARVEY G. DENHAM, Manager of Sales, in New York City, who was directly responsible to Mr. F. A. DAVIES, President of the ARAMCO. DAVIES, in turn, answered to Mr. J. H. MacGREGGILL, Vice-President and Director of the Standard Oil Company of California, and to Mr. C. E. CLASFIELD, Vice-President and Director of the Texas Company. BARTHELMESS stated that shortly after his transfer to the Sales Department, J. T. DUCE, Vice-President of ARAMCO, was sent to Washington, D. C., and placed in charge of State Department work and Government relations. Mr. BARTHELMESS stated that since DUCE was formerly an employe of the Texas Company, and he, BARTHELMESS, was formerly a employe of the Standard Oil Company of California, which companies were in continual rivalry, resented BARTHELMESS' reporting directly to the sales manager in New York City rather than going through his Office. It was noted by Mr. BARTHELMESS that DAVIES objected to having DUCE passing in matters pertaining to sales, and he was accordingly instructed to continue with his unpleasant arrangement of reporting to New York.

Mr. BARTHELMESS stated that during the time he was associated with ARAMCO in Washington, D. C., as a Representative, he operated strictly under orders and instructions given to him by Mr. DENHAM and that on some occasions these instructions were altered or changed by Mr. DUCE with the result that he was never free to actually operate as a free agent or to make decisions upon his own initiative. He stated that in every instance he was instructed to meet prices to demand and what concessions he could make.

Mr. BARTHELMESS stated that he was active in undertaking negotiations with the Navy Department for the purchase of oil from Ras Tanura Refinery, and that he had made other contracts with French and Uruguayan Governments, which contracts were likewise made under instructions from Company officials. He stated that the policy was dictated by the sales manager of the various companies and subsidiaries and that these instructions were sent to sales representatives who, if they did not conform with instructions, were replaced by persons who would follow orders.

Mr. BARTHELMESS stated that as the War drew to an end and the Army and Governmental contracts ceased it was agreed that the ARAMCO would be dissolved and that the contracts and obligations incurred thereby would be assumed by other companies within the Standard Oil Group. He stated that he heard that the Standard Oil Company of New Jersey and the Seelye Vacuum Company would, no doubt, receive the greater portions of the benefits. He stated he learned through rumor that the Standard Oil of New Jersey requested a legal opinion from the late Chief Justice CHARLES EVANS WHITTE as to whether the merger of the ARAMCO with the Company would be a violation of the Anti-Trust laws, and

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upon receipt of an opinion to the effect that it would be, the contemplated merger was not undertaken. He stated he was ordered to report to the ORWITT COMPANY in New York by the officials and upon his refusal to accept employment with a subsidiary, he was handed his dismissal notice on January 17, 1947. He indicated there was considerable unpleasantness between himself and the Company after this date wherein he stated he was going to make public facts in his possession relative to the excess profits realized by the Corporation in its contracts between ARAMCO and the Navy Department and other transactions. He was advised to immediately report all of his information to officials of the Company and to dispose of all his company property with the same official. Upon refusal to so report BARTWELL said he was accused of stealing Company files and property. He has been in continuous difficulty with the officials since that date and has likewise been in continuous communication with the President of the United States whom he wrote on February 25, 1947, which letter is set forth as follows:

"3201 North Abingdon  
Arlington, Virginia  
February 25, 1947.

"The Honorable Harry S. Truman  
President of the United States  
Washington, D. C.

"Dear Mr. President:

"There are several matters in connection with the Arabian American Oil Company's dealings with the United States Government which I believe to be of sufficient national importance to bring to the attention of both your office and to Congress.

"First, the matter of national security which I consider to be in a state of jeopardy on account of the continued use by the U. S. Fleet in the Pacific, of an inferior fuel oil as manufactured by the Arabian American Oil Company in Saudi Arabia. This situation is still maintained despite an official recommendation against the use of this product made by the U. S. Naval Boiler Testing Laboratory on September 3, 1946, in report No. 3771 as submitted to the Bureau of Ships. The conclusion of this report is excerpted herewith, quote, It is concluded that the samples described herein constitute comparatively highly paraffinic products which paraffinicity imparted adverse pour and incompatibility qualities thereto. Furthermore, the five gallon sample does not have the requisite fluidity. Both samples are classified Not Satisfactory for any use., unquote.

"The likelihood of mechanical failures due to the use of an off specification product is aggravated to a greater degree when vessels operating out of Pearl Harbor on a conforming specification fuel are forced to replenish and thus contaminate their supply at any other Pacific base with an incompatible fuel.

"The second condition which certainly warrants an investigation on a high Government level is that concerning contract prices the U. S. Navy has paid and is currently paying for petroleum products received from the Arabian American Oil Company. From the period November 1, 1945, through January 1, 1947, the U. S. Navy took delivery of some 22,500,000 barrels of products for which the Government paid a sum in excess of \$33,000,000, resulting in an estimated profit to the Arabian American Oil Company over and above production, royalty, and manufacturing costs, of approximately \$15,500,000.

"Considering the fact that the U. S. Navy lifts practically the entire output of Arabian American's refinery, otherwise inoperative, it hardly seems proper that this state of affairs should be continued throughout 1947 wherein the government is obligated to the extent of over 20,000,000.00 for petroleum products, representing a contract for nearly one half the entire U. S. Navy's fuel requirements.

"Your attention is also called to other contracts negotiated with the government for UNRRA account wherein the Arabian American Oil Company will realize an estimated profit of over 220%, or some 2,000,000 barrels of crude oil.

"The California-Texas Oil Company Ltd. (Bahrain Petroleum Company, Ltd.), has also been the recipient of similar Government modifications where petroleum contracts are concerned.

"The injustice of this situation to the American tax payer is further intensified by the fact that the Arabian American Oil Company's entire operation has received invaluable aid and sponsorship from practically every branch of the Government at the expense of other wartime operations. It is also obvious that said refinery in Saudi Arabia, could not have been completed even at this late date without this assistance.

"The third and no doubt the most important point is the apparent practice our government gave to the pending or accomplished deal whereby three Standard Oil Companies will continue with the Texas Company for the purpose of producing and allocating Arabian Oil. Aside from the tremendous control of world oil which would thus come, are the adverse foreign political



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"consequences our Government would fall heir to, particularly in Europe where the strong, now friendly nation has already registered its protest. The elimination of competitive forces in the field of international petroleum will most certainly do more to alienate those countries who find themselves forced to deal with one or two large cartels than any other factor attributable as a cause for war. It seems inconceivable that our Government could countenance the infliction of American corporate imperialism on foreign countries, while at the same time we go to so little effort to convince those nations of our lack of national imperialistic ambitions. This surely in so vital an issue is beyond comprehension.

"The writer will be pleased to respond to any inquiry resulting from the foregoing statements.

"Very respectfully yours,

"C. W. Bartolinas "

In addition, BARTOLINAS stated he has been in contact with the chairman of the Special Committee investigating the National Defense Program relative to his allegations and charges against the Company and the Navy Department and under date of July 16, 1947, submitted his last communication to that Committee assuring the report of the Navy Department dated June 2, 1947, by CHESTER C. HOOD, Captain, U. S. Navy, of the office of the Judge Advocate General. He indicated that both of these communications could be obtained from the records of the Special Committee Investigating National Defense Programs in Washington, D. C.

### III. ORIGINAL CONTRACT NEGOTIATIONS

Mr. BARTOLINAS stated that it was of the utmost importance to the Company that at the time the original negotiations were undertaken that a high rate be obtained for all of their products. He stated it was a well known practice in Governmental contractual dealings that all subsequent contracts were predicated more or less upon the rate obtained in the original agreement. He stated that with this promise in mind the policy of the company was developed and that to justify the rates demanded of the Navy Department in the subsequent negotiations which ensued, the following reasons were stressed in all dealings with Governmental negotiators.

The predominating purpose which was followed by the Standard Oil Company and all of its subsidiaries was the prevailing rate quoted in the Gulf District. By this he meant that in the United States the quotations for the Gulf District oil showed the prevailing rate in the United States and other countries, and if possible, it was desired to set a rate as near this quotation as possible. Accordingly, when he and Mr. HANVEL C. DEERIN, manager of sales, undertook negotiations, the Gulf District quotations were the basis for the contract.

The second basis used by the ARABCO in arriving at a rate was obtained from the prior contractual negotiations set up between the ARABCO and the Bahrain Petroleum Company. In this connection he stated that there existed a submarine pipe line from the Dammam Field in Saudi Arabia, to the Bahrain Refinery located across the Persian Gulf and which ran for a distance of approximately thirty four miles. He indicated that ARABCO and Bahrain had established a price of \$1.02 per barrel plus three cents per barrel pumping charge, or a charge of \$.05 per barrel for the fuel oil delivered to the Refinery at Bahrain. As previously stated the Bahrain Petroleum Company, Ltd., is a British Corporation and during the war period was subject to the currency blockade set up by the British Government, which prohibited payment of money dividends to the stockholders, most of whom were American citizens. Numerous negotiations had been undertaken to attempt to unfreeze these funds with negative results by the ARABCO. As a result, the officials of the ARABCO advised the British Government that since the stockholders have no present use of the dividends they were going to charge a high rate for each barrel of oil which was delivered to the Bahrain Company. This plan apparently was acceptable to the British Government, and as a result the rate of \$1.02 per barrel was set up as an inter-company rate and very highly excessive. This figure was consequently quoted to the Navy negotiators and used to state that the Company was allowing the Government the "inter-company rate".

In addition, third in arriving at the high rate, the company stated that although the original agreement with the Saudi Arabia Government, required the payment of a royalty of twenty two cents per barrel, they were compelled due to lack of proper financing to double this royalty and consequently were forced to pay approximately forty four cents rather than twenty two cents.

In this connection, BARTHELEMS stated that from the company's own figures the cost of production of a barrel of oil at the Ras Tawura Refinery was approximately seven and one half cents per barrel. He stated that this cost of production included all charges which may have incurred in the erection of the Plant, the correct operations of the Plant, and labor charges. He stated that the cost of labor in Arabia was approximately sixty to seventy five cents per hour

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for an average worker, whereby in the United States the average oil field employee earned approximately ten dollars per day as a minimum. According to BARTHELMES' figures the actual cost of production for one barrel of oil was seven and one half cents plus twenty two cents royalty or twenty nine and one half cents per barrel.

To refute the company's allegations that the royalty had been increased, Mr. BARTHELMES produced a copy of a letter dated February 21, 1946, addressed to J. H. McDONALD, San Francisco, by J. T. DICK, which is set forth as follows:

MEF -3183

Mr. J.H. McD.

"With ref. to LFI-16%.

"I have been going over the last figures sent me. May I complain a little that the figures on producing dept. fractions are a little obscure in their present form. After doing a considerable amount of mental gyration and arithmetical calculation I found out what the figure meant per barrel.

"I suggest that you get these figures and go in consultation with Mr. Dale Eix and recast the form slightly. I notice for instance, that operating expenses are divided into two categories - general expense of operation and royalty. I think these should be set apart so that one sees clearly which is which. The figure .2199 per barrel refers, of course, entirely to royalty while the other operating expense is .0796 per bri. Similarly we have a number of other expenses which might well be segregated out so that the total .3310 per barrel is clearly arrived at for operating and general expenses. The set up would then become less mystifying when one takes a first glance at it.

"I have to confess to do the mental gyrations necessary to clarify this statement as it now stands but I can imagine that people like Mr. Camp would be somewhat annoyed by its present form.

"This is a criticism as to form only. The figures are okay.

"JD. "

Mr. BARTHELMES in identifying this particular letter stated it was contained in the San Francisco Home Office of the Standard Oil Company of California, under the heading SEP-112, which indicated that the letter was

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addressed from Washington to San Francisco and was chronologically the 3,183 letter in connection with the ARAMCO dealings. It is noted that reference is made to LFW-1696, which means reference is made to letter from San Francisco to Washington #1696.

Mr. BARTHELLES, continuing, stated that while the original contract was under negotiation he was still handling the engineering details and other problems in the Washington Office and consequently did not know too much about the negotiations. He stated that his contact with representatives of the Navy Department were with representatives of the rank of Lieutenant or Lt. Commander while the higher echelon were handled by company officials. He indicated that at the time he became involved in the contract negotiations he had absolutely no prior knowledge of the existence of an offer by Mr. MOPPETT in 1941, which contract carried the cost considerably less than the actual figures arrived at.

He added that H. G. DENHAM made numerous efforts to arrive at a contract through Commander MACKILLIE and Lt. BODENSCHATZ, but that the Navy originally refused to make a contract at the figure demanded by the oil company. During the course of the negotiations DENHAM had found it necessary to leave Washington and consequently he, BARTHELLES, was ordered to continue to try to arrive at some figure. He was instructed that he should follow the original demand of \$1.05 per barrel. He stated that he and the Navy Representatives were unable to arrive at a figure and that thereafter he contacted DENHAM in Los Angeles and advised him that the Navy would not consider signing that demanded price, stating that the cost of production no where approximated the cost of production in the Gulf District. BARTHELLES stated this was the only time that the costs of production were ever mentioned by any of the representatives of the Navy Department. He indicated that the figures as to the actual costs of production were later available to the Resident Inspectors of the Navy Department in Arabia and at Washington. He stated that they made absolutely no efforts to obtain the cost of production at any time during any of the negotiations in which he was present. He expressed concern along this line inasmuch as he did not feel that the Navy should have proceeded without figures relative to the costs in their possession during the time contracts were being negotiated.

Subsequent to his advising DENHAM of the refusal of the Navy to negotiate, DENHAM is alleged to have stated that he would do what he could from that end and advise BARTHELLES, together with Commander TED WILLMAN in Washington, who was in charge of the fuel section of the Navy Supplies and accounts. DENHAM also told him, BARTHELLES, that someone in a higher level would deal with Admiral ANDREW F. CARTER to bring about a more cooperative opinion on the part of the Navy negotiators.

BARTHELLES stated he was unable to obtain the agreement by the

Navy representatives on the grounds that the ARAMCO cost did not compare with the United States' cost of production, refining, or transportation, and DENHAM subsequently authorized a slight reduction in price. BODENSCHLITZ still objected to the price as did JOHN J. WALSH, a Lieutenant who was also present during the negotiations, and a subsequent impasse was reached. He stated it was at this point that he contacted DENHAM in Los Angeles and was advised that one of the officials of ARAMCO had contacted Admiral A. F. CARTER, Executive Officer of the NYPE, who is the brother of Admiral W. F. CARTER, the Chief of the Bureau of Supplies and Accounts. BARTHELMEZ stated that he then contacted Lt. WALSH and he agreed on the next offered price of \$1.05 per barrel for fuel oil, \$1.68 per barrel for diesel oil, and 6.25 per barrel for 80 octane gasoline. WALSH, of course, disagreed with these figures and complained to him, BARTHELMEZ, that some of the company officials had gone over his head in this matter. After arriving at these figures an appropriate contract was drawn up and a letter of justification was submitted by Lt. D. E. BODENSCHLITZ to the Bureau of Supplies and Accounts.

BARTHELMEZ stated that during the entire period of negotiating in this regard DENHAM gave him all of his instructions and J. T. DUCK, Vice-President of the ARAMCO likewise kept his finger on the pulse of the entire negotiations.

He stated that once the original contract had been agreed upon and a rate set, the company felt that they could continue to require the payment of these rates by the United States Government.

In connection with figures submitted by the ARAMCO relative to the costs of production, it is the contention that it cost them forty one cents per barrel to process a barrel of crude oil, and this is the cost which BARTHELMEZ believed was listed with the Bureau of Internal Revenue for taxation purposes. As previously set forth, the actual cost of production, according to Company figures was .3310 per barrel.

#### IV. SEVERAL CONTRACT NEGOTIATIONS

RE: CONTRACT # 5 xx - 12927.

According to information available, this contract was entered into on September 13, 1945, between Lt. J. J. WALSH, USNR, for the Navy, and H. G. DENHAM, Manager of Sales, and C. V. BARTHELMEZ. Mr. BARTHELMEZ stated that he may have engaged in some of the preliminary negotiations relative to this contract, but

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he was not present at the time of the contract signing inasmuch as he had been sent to Europe for the AMALCO to develop additional contracts. He indicated that he sailed from New York City on September 22, 1945, and returned to this country on December 24, 1945.

Re: CONTRACT # 5 EX - 12929

BARTHELEMS stated from a review of the records in his possession that the contract was entered into on November 20, 1945, and that during the time of the negotiations, he was not in the United States. Accordingly, he could not have taken part in the fuel negotiations. As previously stated, he indicated that possibly he may have been present at the time the preliminary inquiries and matters were undertaken.

Re: CONTRACT # 6 EX - 2775

Mr. BARTHELEMS stated that this contract was entered into on June 14, 1946, and it will be noted there was an increase in the price per barrel of fuel oil special, this price being increased from \$1.05 to \$1.17 per barrel. He stated this was explained since at that time the Gas Turbine Refinery was operated in full capacity with the result that more diesel fuel was being manufactured than was necessary under any other contracts, and consequently, the reserve tanks were becoming filled. He indicated that unless some disposition was made of the diesel oil the entire refinery would have to be shut down. He stated this was so because during the manufacturing of the fuel oil additional by-products were likewise made, and when they stop one it was necessary to stop the entire manufacturing system. Accordingly, this reserve caused the Navy officials to be contacted with a view to selling the diesel oil with the fuel oil and selling it to the Government as fuel oil. The Navy agreed to this procedure and permitted the increase in the rate. He explained that the diesel oil cost considerably more than fuel oil, and the mixture of the diesel oil and fuel oil was pro-rated so that the over all price per barrel for the fuel oil would be \$1.17 and this way would remove the high reserve of diesel oil and permit the continued operation of the refinery.

It was noted by Mr. BARTHELEMS that the mixture of the fuel oil had to comply to Navy speed operations within the regulated limit or the material could be rejected by the Navy inspectors. He indicated that during this time the governing policy of the Company involved, namely, to obtain the highest rate which the market would bear.

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Re: CONTRACT N 6 88 - 3956

Mr. BARTHELMES produced a copy of a communication from H. G. DENHAM, dated April 26, 1946, to Mr. F. A. DAVIES, relative to the price of crude oil. This communication is being set forth in total as follows:

"Negotiations with Navy-Arabian Crude  
(Importation by Navy of Crude to run for Fuel)

"Mr. F. A. Davies  
San Francisco

"Confirming my telephone conversation from Washington with you yesterday, we offered Admiral A. F. Carter for the Navy 25,000 BPD Arabian Crude Oil for delivery at Ras Tanura, beginning about the middle of May, 1946, for a period of six months, subject to the following conditions:

1. Ability of the wells to produce
2. Ability of our facilities to deliver
3. Limitation due to previous commitments made by us

"We stated that our price would be 90¢ per barrel delivered ship and rail Ras Tanura for crude of 34.0 - 34.9 gravity, with 2¢ each degree, more or less, for gravities above or below 34 gravity.

"It is understood that if we are unable to deliver the full 25,000 BPD initially, we can probably deliver 4,500,000 over a six months period by increasing the quantities during the latter part of the contract. Admiral Carter said he would know in a day or two and certainly by the first of next week, whether or not the deal will go through. If it does, he thought he might want even more than 25,000 BPD, if we could supply them. In any case, we should know in a few days, if this is firm business.

"H. G. DENHAM."

However, the quoted price of 90¢ per barrel to Admiral A. F. CARTER apparently did not reach the Navy negotiators on the contract since he was authorized by the ADMIRAL to enter into agreement with the Navy Department charging the rate of \$1.13 per barrel for crude oil. BARTHELMES indicated that

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at the time of entering into these negotiations, his instructions were the same as before, to obtain as much as he possibly could, and was given a rate within which he could operate. He indicated that an additional ten cents per barrel had been added to the contract price at this time since the rate of the Gulf District oil quotations had increased ten cents during this period. He stated that the cost of production and other charges for the manufacture of the oil in Saudi, Arabia, had remained constant.

He stated that at this time the Navy Department was in a perilous condition for an adequate supply of fuel oil as the major oil companies were trying to avoid selling of crude oil to the Navy Department because a bi-product, #2 heating oil, was given a higher OPA price ceiling and consequently all of the crude oil was directed to the manufacture of that product. Numerous plans were undertaken for the shipment of Arabian crude oil to the United States to alleviate this problem, but were curtailed by the influence of the large oil companies and the independent companies feeling that foreign oil would increase the supply and consequently lower prices in this country. This plan was finally put through the Navy Department, but was vetoed by JOHN SWIDER, then Economic Mobilizer.

Mr. BARTHELME'S continuing, stated that the oil obtained in this contract by the Navy Department was sent to Italy in furtherance of the UNRRA-Italian Program. He stated that there were two usable refineries remaining in Italy at the end of the war, which were being cared for by Italian personnel and which, if used to refine American crude oil could be utilized in the relief program, and also obtained additional outlets for the ARAMCO. He stated there was a favorable monetary exchange existing in this program since the Italian exports were to be paid off in U. S. currency while the operations of the refinery and costs were to be made in Italian lire. He explained the Navy entered into this to act solely as a purchasing agent for the UNRRA since the time of the contract negotiations UNRRA had no purchasing facilities. He stated that the Navy Department handled this on a commission basis.

Re : CONTRACT N 6 SX - 4207

This contract was negotiated on November 8, 1946 by Mr. BARTHELME'S and Commander C. G. DRESCHER, as was the preceding contract. The complete details applicable as set forth above were present at the negotiations of this contract and they were to be used for the same purposes by the Navy Department.

During the negotiations for the following contract N 6 SX 4856,



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ARAMCO had various dealings with other companies and countries for the sale of the crude oil F.O.B. at Ras Tanura Refinery. He indicated that during this time officials of the ARAMCO entered into a contract with Uruguay, for the sale of Arabian crude oil to that Company at \$1.05 per barrel, F.O.B. Ras Tanura while they subsequently quoted the Navy Department a price of \$1.17 per barrel. Mr. BARTHELMES stated he had absolutely no connection with this contract with Uruguay.

In connection with a statement relative to dealings of ARAMCO with Uruguay, BARTHELMES furnished the following letter from Mr. P. A. DAVIES, which is set forth as follows:

\*(Excerpts)

\*Quantity 360,000 cubic meters

Section 5 Quotation

- (a) \$12.58 per cubic meter job Montevideo
- \$ 6.73 per cubic meter job Ras Tanura
- WCAF to pay insurance
- Crude 34.0 - 34.9 API

\*Such price shall be subject to rise or fall with average posted West Texas (Permian) crude oil and average posted price of East Texas crude oil at the wells as hereinafter provided and the price to be paid in respect to any cargo shall be subject to adjustment on the basis of such posted prices which shall have been in effect thirty (30) days prior to the commencement of loading of such cargo at sellers marine loading terminal. Said price shall increase or decrease one-half cent (\$.005) with each one cent (.01) increase or decrease in the average posted price per barrel for West Texas (Permian) crude oil of 34.0 to 34.9 degrees API, gravity (such average posted price being now \$1.45 per barrel) and said price shall also increase or decrease one half cent (\$.005) with each one cent (\$.01) increase or decrease in the average posted price per barrel for East Texas crude oil (such average posted price per barrel being now \$1.70) increase or decrease in either said average posted prices of less than one cent (\$.01) per barrel to be disregarded.

\*Section 6 -- Payment Conditions

\*Payment shall be made in U. S. Currency in advance of delivery of each cargo. Our usual terms of payment call for the establishment of a sight irrevocable letter of credit at least twenty days prior to each loading with a bank in New York or San Francisco.

\*P. A. Davies

During this time ARAMCO entered into negotiations with McCALL-FRONTENAC OIL COMPANY of Canada, which is fifty percent owned by the Texas Company in which the Canadian Company was offered the right of purchasing the oil at ninety cents per barrel. McCALL-FRONTENAC turned down this offer and countermanded with an offer of seventyfive cents per barrel. BARTHELMEZ stated that the Company wanted to go along with this price but that the home office of the Standard Oil Company of California refused, demanding a price of eighty five cents per barrel instead. He indicated that a subsequent contract was entered into whereby a compromise price of eighty cents per barrel was reached.

Re: CONTRACT # 6 ex - 4856.

In addition to information previously furnished above relative to the rate set forth in this contract, BARTHELMEZ stated he was charged by the company officials to obtain approximately \$1.23 per barrel for the oil from the Navy Department, but he was given a leeway within which he could operate. He stated that there is no reason for the increase in the charge other than the fact that the Company claimed that this viscosity of the oil was lower due to certain improvement which they had made relative to the oil. He stated that the viscosity and the gravity of the oil were the determining features of the contract and that most of the oil contained a gravity which would raise the payment of a price of \$ 1.21 per barrel.

V. SPECIFICATIONS AND COMPATIBILITY OF OIL

Mr. BARTHELMEZ stated that he had been with the technical laborator of Standard Oil Company of California and as previously stated, majored in mining engineering and crude oil refining in college, and as a result of this educational background and experience, felt he was competent to make certain statements relative to the merit of the oil which was manufactured at the Tamaqua refinery.

He indicated that the oil contained a high sulfuric content which exceeded the Navy specifications of 1% by a considerable latitude. He indicated that the oil had a sulfuric content of at least 2%, which is 100% more than the Navy set forth in their specifications. He stated that as a result of this sulfuric content, when the oil became heated it caused a certain amount of residue, which when mixed with moisture created a sulfuric acid which was harmful to the working mechanisms of any Naval vessel. He continued that this high sul-

fuel contact prohibited the mixture of the oil with any type of oil manufactured and refined in the United States. He stated this lack of compatibility caused considerable difficulty due to the fact that when the mixture was effected in the working mechanism of a ship, a residue was left after the oil was used. He stated this residue caused a sludge to form in the pipes and working mechanisms of the ship, thus causing the interrupting operation of the mechanical parts of the vessel. He indicated this was harmful to the maneuverability of the Fleet as it would not be possible to use the two types of oil together and it would not be possible to use all of one before commencing the use of the other during war time maneuvers of the Fleet.

He stated that the ABAMCO Refinery had no cracking plant which is a system of purification of the oil so that it would be compatible with other oils manufactured in this country. In this connection, he stated that no American oils are cracked oils and can be intermixed, while the Arabian oil as presently manufactured, had not been subjected to this purifying treatment. It was noted by Mr. BARTHELEMS that the price of the United States oil in the Gulf District included the cracking treatment and thus an additional cost of production, which is absent from the ABAMCO products.

VI. PRESENT POSITION OF NAVY AND GOVERNMENTAL NEGOTIATIONS WITH ABAMCO.

Prior to furnishing this information, Mr. BARTHELEMS stated that as a representative of the Oil Companies he had found that numerous Governmental employees in the Navy Department, as well as other war agencies, were prone to "play ball" with the representatives of the large oil companies. It was felt by these employees that if they showed favors and worked energetically on a contract in which these oil companies were involved they would be rewarded by subsequent employment with one of the large oil companies or its subsidiaries. He stated particularly that Mr. J. I. DUFF, now Vice-President and Director of the ABAMCO and formerly an employee of the Texaco Company, had been appointed as Director of the Foreign Division of the Petroleum Administration for War; that after he had set up all the plans and details for the operation of the ABAMCO Refinery in San Francisco, he subsequently resigned from PAY and accepted a "hot" executive position with the ABAMCO. In this connection he stated that upon DUFF's resignation from his position with the PAY, Mr. C. S. BIRDBACKER, his assistant, was made Director of the Foreign Acquiring Division and he subsequently resigned from the Government and accepted employment with BIRDBACKER, BIRDBACKER, and FRANCISON, California, who were the contractors and contractors on the Shell,

ME 46-634

Arabia, Refinery. Mr. SMOGGRASS, upon his resignation from the Government was made a Vice-President of the HENRIEL McCOHE COMPANY and later took charge of the Saudi, Arabia, Purchasing Agency in Washington, D. C.

Mr. L. J. GAVIN, who was Assistant to Mr. SMOGGRASS in the PAN advised BARTHELME that Mr. C. E. OLNSTEAD, Vice-President and Director of the Texas Company offered him, GAVIN, a position with the Texas Company whenever he was ready to leave the PAN. Mr. GAVIN is now employed by the Asiatic Petroleum Company, a subsidiary of the Standard Oil Company.

Mr. EDWARD MARTIN was formerly employed with the Foreign Economic Administration and in this capacity he had control of all materials assigned to foreign ports except military. He was licensing officer on the FA and was, before entering into the Governmental service, an employee of CALTEX CORPORATION, and has returned to the employ, being assigned in an executive capacity in China.

Major E. F. CAVANAUGH was formerly Assistant to Admiral A. F. CARTER in the AEFB, Washington, D. C., and is now Washington Representative of the ARABCO. Major CAVANAUGH in his capacity as Assistant to the Executive Officer of the AEFB assisted in the shipment of transportation and vehicles to Ras Tanura for the construction and development of the Refinery and other fields. It was noted that at the time of the construction and erection of the refinery at Ras Tanura, it received a very low priority rating, although according to Mr. BARTHELME it was given a A-1 listing. As a result, it was difficult for them to obtain motor vehicles and other means of transportation, which were necessary in the leveling process prior to the construction of the refinery and for the transportation of building equipment during the construction period. He stated that all vehicles were assigned to military groups and it was impossible to obtain a priority for the right to purchase this equipment. In this case, he stated that arrangements were made by ARABCO officials through Admiral A. F. CARTER and Major CAVANAUGH to have the equipment designated for the Persian Theater of Operations, directed to the Saudi, Arabia, project. He stated that Major CAVANAUGH contacted General BREWSTER SUGGSEVILLE, and that as a result, SUGGSEVILLE wrote a short memorandum on a "check slip" to the man in charge of military equipment to assist ARABCO if it would not interfere with the requirements of the active theaters. Inasmuch as the transfer of this equipment in the United States to a private company would be a direct affront to the authorities invested in the AEFB, it was decided by the military officials, according to BARTHELME, that the transfer of this equipment from military sources be made in Arabia by the device of declaring it surplus to the theater (Persian Gulf Command under General CONNELLY), thus from information furnished by BARTHELME, the equipment was shipped to Philadelphia where ARABCO had it crated and board therein, and it was then shipped on an Army bill of lading

addressed to the Persian Gulf Command, care of ARABCO. The equipment was discharged on ARABCO Pier.

Under Secretary of War, HODGILL, then in the Adjutant General's Office, went to Teheran where he negotiated the contract arranging for the transfer of this surplus equipment to ARABCO. According to Mr. BASTHELLES, had this device been known to other military theaters, other oil companies, war contractors, not to mention officials of the WPB, it would, no doubt, have resulted in a terrific amount of criticism in Washington.

Commander TED WELLMAN, who was formerly in charge of the Fuel Section, Bureau of Supplies and Accounts, now is employed with the Standard Oil Company of California; Lt. JOHN J. WALSH, U.S.N.R., who negotiated numerous contracts on behalf of the Navy Department with ARABCO, is now employed by the Standard Oil Company of New Jersey. In this case Mr. BASTHELLES stated he had recently been contacted by DREW PEARSON, author of the column Washington Merry-go-round, and requested information relative to the activity of WALSH in this matter. BASTHELLES indicated he told PEARSON that WALSH had complained about Company officials going over his head, but that when PEARSON confronted WALSH with this accusation, WALSH denied he had ever made such a statement.

Lt. D. E. BODENSCHLITZ, U. S. N. R., is now employed by the General Petroleum Corporation, which is a subsidiary of the Sacoay Vacuum Company. HENRY GALDEO, Lt. Commander, USN, was formerly employed during the war emergency as a research chemist and is now employed by the California Research Corporation, a subsidiary of Standard Oil Company of California. He indicated that GALDEO took test samples of oil, which samples were based upon products manufactured by the Standard Oil Company of California, and ran tests for the Navy Department against these samples. He indicated that GALDEO would, no doubt, be able to ascertain and provide information relative to the specifications of the oil refined at Mas Tanura.

Admiral ARTHUR F. CANTER, Executive Officer of the WPB, is now President of a Standard Oil subsidiary engaged in the transportation of oil by tanks. It is to be noted that this tank service is one of the important items in the distribution of oil and from which the Companies derive a high profit.

#### VII. CONTACT WITH JAMES A. LEFFERT

Mr. BASTHELLES advised that he had had absolutely no connection with JAMES A. LEFFERT prior to the time that he made public allegations contained herein relative to excessive profits realized by the ARABCO from the Navy Depart-

ment and the United States Government during the past war. He stated that after he released his communication to the press and addressed letters to numerous members of the House of Representatives, he received the communication from Mr. MOFFETT requesting him, BARTHELME, to come to New York for an interview. During this interview BARTHELME explained the situation to Mr. MOFFETT and they compared their experiences. He stated it was at this time that MOFFETT advised him of the contents of the original offer made by MOFFETT as an Executive of the Standard Oil Company to President ROOSEVELT on April 16, 1941. He indicated that the costs of production would not have materially changed since the date of the original offer and both he and MOFFETT were in accordance on this premise.

He stated he had been accused by the press and representatives of the oil company of having been in collusion with MOFFETT in this regard and that he was in the employ of MOFFETT. He denied that there was any collusion with MOFFETT and that information furnished by him is based entirely upon his own personal experience and other factual sources as previously related. He stated MOFFETT had offered him several positions, but that he had not seen fit to accept them. He indicated that he has experienced considerable difficulty in obtaining employment since his resignation from ARAMCO, but is unable to state that the matter of the major oil companies was responsible for this failure. He was of the opinion, however, that he was definitely through in the oil business due to this incident.

Mr. BARTHELME stated he would be willing to testify as to any of the statements made by him during the course of this interview and that he had submitted additional information to the Senate Investigating Committee which he believes should be made available to the Bureau in the event it undertakes criminal investigation in this matter. He indicated that some of the material which he has referred to may have been destroyed and consequently he would have to testify from memory as to many allegations made by him. He stated he is definitely of the opinion that the actions of the oil companies would be detrimental to the safe operations of the Navy in the event they continue to use the poor grade of crude oil furnished by ARAMCO, and believed that they were making huge profits from the contracts. He indicated that he was in possession of a copy of a teletype dated January 26, 1946, from J. T. DUKE to P. A. DAVIES, in San Francisco, which is set forth as follows:

"Reflecting upon the possibility that with contracts now in force continuing throughout the year we may have considerable net, suggest you give some thought to a policy of allocating all possible charges against 1946 income.

ME 46-674

"We might be in an embarrassing position with some people with whom we have contracts should our net be excessively high. I am recalling present position in Venezuela as result of large earnings of Creole, also possible effect in Washington."

In addition, he stated he had seen copies of the financial statements AMALCO, which statements were attached as enclosures to the letter from San Francisco to Washington #1696 from BEKIUS, Assistant Treasurer and Comptroller to J. T. DUCE. He indicated the financial statement was likewise attached to a letter from Washington to San Francisco #3183, which was from DUCE to BEKIUS.

REFERRED UPON COMPLETION TO THE OFFICE OF ORIGIN

Assistant Attorney General Theron L. Caudle  
Director, FBI

July 7, 1947

Arabian American Oil Company  
California Arabian Standard Oil Company  
PAVUD AGAINST THE GOVERNMENT

Your attention is invited to the report of Special Agent Matthew J. Lightbody, dated June 26, 1947, at San Francisco, California, wherein an interview with Mr. D. E. Bodenschatz is set out.

Mr. Bodenschatz, formerly a Lieutenant in the Navy assigned to the Bureau of Supplies and Accounts as a contracting officer, objected to the inclusion of petroleum products contained in the contract entered into by the Navy with the Arabian American Oil Company in 1934. From Mr. Bodenschatz was interviewed by Agents of the Bureau he declined to discuss his actions in connection with the contract negotiations from memory, pointing out he had submitted a complete memorandum for the Navy Department at the conclusion of the negotiations. He felt this memorandum would provide the most accurate record of his activities.

In attempting to secure a copy of the memorandum from the Navy Department it was determined the memorandum had been turned over to the Brewster Committee of the Senate and no copies were retained by the Navy Department.

No attempt will be made to secure a copy of the memorandum from the Brewster Committee unless you desire such action be taken. I would appreciate a statement of your desires in this matter.

46-10326

CEH:ELM

COMMUNICATIONS SECTION

MAILED 4

★ JUL 8 - 1947 P.M.

RECEIVED  
ASST. ATTORNEY GENERAL  
JUL 10 1947

RECEIVED  
JUL 10 1947

*Handwritten initials/signature*

*Handwritten initials/signature*



## Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

FROM : *ax* Guy Hottel, SAC, Washington Field

SUBJECT: ARABIAN AMERICAN OIL COMPANY  
 CALIFORNIA ARABIAN STANDARD OIL COMPANY  
 FRAUD AGAINST THE GOVERNMENT

DATE: July 1, 1947

Rebulet dated June 29, 1947.

Captain CHESTER WOOD, U. S. Navy Department, Washington, D. C., stated that the complete memorandum for the Navy Department dictated by ~~WY~~ BREWSTER concerning the progress of the negotiation and other details in regard to the Arabian American Oil Company had been turned over to the Brewster Committee of the Senate and that the Navy Department had no copies of this memorandum.

This information was furnished to Assistant Director Al Rosen who instructed that this lead be held in abeyance pending further instructions from the Bureau.

JHC:NE  
 46-1644

~~RECORDED~~  
~~INDEXED~~

46-13326  
 JUL 1 1947

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1  
THIS CASE ORIGINATED AT **Washington, D. C.**

FILE NO. **46-1644**

|  |                                  |   |   |
|--|----------------------------------|---|---|
| REPORT MADE AT<br><b>WASHINGTON, D. C.</b> | DATE WHEN MADE<br><b>7-17-47</b> | PERIOD FOR WHICH MADE<br><b>7-10, 15-47</b> | REPORT MADE BY<br><b>J. BERNARD COOK (A) JBC:AM</b> |
|--|----------------------------------|---|---|

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|--|--|
| TITLE<br><b>ARABIAN AMERICAN OIL COMPANY</b><br><b>CALIFORNIA ARABIAN STANDARD OIL COMPANY</b> | CHARACTER OF CASE<br><b>FRAUD AGAINST THE GOVERNMENT</b> |
|--|--|

**SYNOPSIS OF FACTS:**

No tests made at Experimental Station, Annapolis, Maryland, on oil products of Arabian American Oil Company since November, 1945. Letter from Navy Department to Senator BRIDGES set out.

*Handwritten:*  
ADP  
7-17-47

- P -

**REFERENCE:**

Report of Special Agent (A) ANTHONY J. SPLENDORE, dated June 25, 1947, at Philadelphia, Pennsylvania; and

Report of Special Agent (A) J. BERNARD COOK, dated July 3, 1947, at Washington, D. C.

**DETAILS:**

AT WASHINGTON, D. C.

Captain CHESTER C. WOOD, U. S. Navy, stated that information had been received from the Experimental Station, Annapolis, Maryland, that no tests had been conducted on oil products delivered to the U. S. Navy by the Arabian American Oil Company since November, 1945. Captain WOOD stated that the Experimental Station, Annapolis, conducted tests only on gasoline and diesel fuel oil, and that these deliveries did not commence until November, 1945. Consequently, his inquiry at the Annapolis Experimental station was limited to that period from November, 1945 to date.

Captain WOOD furnished a copy of a letter dated June 17, 1947, from JOHN L. SULLIVAN, Acting Secretary of the Navy, to Senator STILES BRIDGES, which, according to Captain WOOD, was an attempt

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| DISTRIBUTION<br>1 - Bureau<br>3 - Washington Field<br>1 - [unclear] | DO NOT WRITE IN THESE SPACES<br><div style="text-align: center; font-size: 2em; font-weight: bold;">46-13326-30</div> <div style="text-align: center; font-weight: bold;">RECEIVED</div> <div style="text-align: center; font-weight: bold;">37 JUL 17 1947</div> |
|---|---|

to clarify the oil picture. This letter is as follows:

"17 June 1947

"Dear Senator Bridges:

"The current shortage of available refined petroleum products in the United States and Caribbean area has created a critical situation. The Navy has experienced difficulty in obtaining fuel to meet the current needs and as a consequence continental stocks have been reduced to an inadvisably low level. In particular, the reserves on the East Coast are inadequate to meet an emergency.

"Appropriate action is being taken to improve the Navy stock position in regard to petroleum products with a minimum effect on the civilian supply which is in an equally critical situation. These measures include exploration of the possibility of obtaining additional supplies of Navy Special fuel oil from U. S. Gulf and Caribbean sources. To date, only limited offerings have been made to cover these additional Navy requirements. These offerings fall short of meeting requirements and in one case have been made on the basis of a premium of 90 cents per barrel above market price. It is considered that this price is excessive and negotiations are continuing in an endeavor to obtain the quantities required at a reasonable and acceptable price.

"The principle source that can be readily exploited to secure the additional quantities required is the Persian Gulf area. The Navy is obtaining 400,000 additional barrels of Navy Special fuel oil over and above regular liftings from the Persian Gulf in June. In addition, for the six months beginning 1 July, 500,000 barrels over and above normal liftings will be purchased each month for a six-month period. This oil will be purchased at the price of \$1.35 per barrel which is the current prevailing price for oil in that area. These additional quantities of oil, 400,000 barrels in June and 500,000 barrels per month thereafter for six months, will be transported to the East Coast of the United States. To the extent that Navy oilers can be made available for this lift, this operation will result in Navy fuel oil from the Persian Gulf being laid down on the East Coast of the United States at a cost comparable with that which would obtain if the oil were purchased from the United States Gulf or Caribbean sources and transported in chartered tankers. For the remainder, the laid down cost will be somewhat higher than would be the case if the fuel could be obtained from the latter source.

"Barring unforeseen heavy drains on East Coast stocks of Navy oil, the program described above will, by late fall, lift Navy fuel stocks on the East Coast to a position compatible with the Navy's obligations for national security.

"Sincerely yours,

JOHN L. SULLIVAN  
Acting Secretary of the Navy

Honorable Styles Bridges  
Chairman, Senate Appropriations Committee  
United States Senate  
Washington, D. C."

P E N D I N G

*Atlantic American Oil Company*  
*Schedule of Contracts from 21st St. Houston*  
*July 1945 thru Dec 1946*

| Contract No.  | Contract Date       | Contract Period              | Product   | Quantity      | Unit Price | Total Value  | Party Regular           | Contract Description       |
|---------------|---------------------|------------------------------|-----------|---------------|------------|--------------|-------------------------|----------------------------|
| 1550-11-10005 | July 9, 1945        | July 1, 1945 to Jan 31, 1946 | Crude Oil | 9,012,750 bbl | 1.05       | 9,462,387.50 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
| 1550-12927    | July 13, 1945       | July 1, 1945 to Dec 31, 1945 | Crude Oil | 2,500,000 bbl | 2.75       | 6,875,000.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               |                     | Dec 1, 1945 to Dec 31, 1945  | Crude Oil | 1,970,000 bbl | 1.68       | 3,309,600.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               |                     | Jan 1, 1946 to Jan 31, 1946  | Crude Oil | 1,110,000 bbl | 1.05       | 1,165,500.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
| 1550-12929    | July 20, 1945       | Jan 1, 1946 to Jan 31, 1946  | Crude Oil | 1,300,000 bbl | 2.75       | 3,575,000.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               |                     | Feb 1, 1946 to Feb 28, 1946  | Crude Oil | 4,210,000 bbl | 1.68       | 7,062,800.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               |                     | Mar 1, 1946 to Mar 31, 1946  | Crude Oil | 4,000,000 bbl | 1.05       | 4,200,000.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               | Modification 1/1/46 | Mar 1, 1946 to Mar 31, 1946  | Crude Oil | (3,000,000)   |            |              | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               |                     | Apr 1, 1946 to Apr 30, 1946  | Crude Oil | (1,300,000)   |            |              | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               |                     | May 1, 1946 to May 31, 1946  | Crude Oil | (3,000,000)   |            |              | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
| 1550-2375     | June 14, 1945       | July 1, 1945 to Jan 31, 1946 | Crude Oil | 1,300,000 bbl | 2.35       | 3,055,000.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               |                     | Feb 1, 1946 to Feb 28, 1946  | Crude Oil | 2,617,000 bbl | 1.68       | 4,396,560.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               |                     | Mar 1, 1946 to Mar 31, 1946  | Crude Oil | 6,120,000 bbl | 1.17       | 7,160,400.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               | Modification 1/1/46 | Mar 1, 1946 to Mar 31, 1946  | Crude Oil | (3,000,000)   |            |              | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               |                     | Apr 1, 1946 to Apr 30, 1946  | Crude Oil | (1,300,000)   |            |              | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
| 1550-2450     | Sept 22, 1945       | Jan 1, 1946 to Jan 31, 1946  | Crude Oil | 7,700,000 bbl | 1.13       | 8,711,000.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
| 1550-405      | Nov 8, 1945         | Jan 1, 1946 to Jan 31, 1946  | Crude Oil | 2,100,000 bbl | 1.13       | 2,373,000.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
| 1550-4156     | Jan 16, 1946        | Jan 1, 1946 to Jan 31, 1946  | Crude Oil | 1,000,000 bbl | 1.17       | 1,170,000.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |
|               |                     |                              | Crude Oil | (1,000,000)   | 1.23       | 1,230,000.00 | W. H. Collins, SC-10005 | Mr. J. H. Collins, Houston |

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1

THIS CASE ORIGINATED AT **WASHINGTON, D. C.**

FILE NO. **16-1644**

|  |                                  |  |  |
|--|----------------------------------|--|--|
| REPORT MADE AT<br><b>WASHINGTON, D. C.</b>   | DATE WHEN MADE<br><b>6/20/47</b> | PERIOD FOR WHICH MADE<br><b>6/16-18/47</b>               | REPORT MADE BY<br><b>MERRILL W. DEEMAN</b> <span style="float: right;"><b>SJM</b></span> |
| TITLE<br><b>ARABIAN AMERICAN OIL COMPANY<br/>CALIFORNIA ARABIAN STANDARD OIL COMPANY</b> |                                  | CHARACTER OF CASE<br><b>FRAUD AGAINST THE GOVERNMENT</b> |  |

**SYNOPSIS OF FACTS:**

List of contracts awarded to Arabian American Oil Company by Navy Department secured which indicated seven contracts awarded from July 9, 1945, through December 16, 1946, with deliveries totaling \$37,692,083.83. Names of Navy and company representatives who negotiated these contracts obtained.

1-17-47  
3-10-47  
6-24-47

- 2 -

**REFERENCE:**

Bureau letter dated May 1, 1947.  
Report of Special Agent **MERRILL W. DEEMAN** dated April 2, 1947, at Washington, D. C.

**DETAILS:**

At Washington, D. C.:

Captain **HESTER C. HOOD**, Office of the Judge Advocate General, U. S. Navy, was recontacted concerning the contracts awarded to subject company by the Navy. He advised that complete data had been supplied to the Claims Division of the Department of Justice for consideration of probable recovery of excessive charges, if any.

Accordingly, **WILLIAM JOEAL**, Claims Attorney, Room 3341, Justice Building, was contacted and a list of contracts awarded to subject company was obtained. This information, together with the

*[Handwritten signature]*

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16-13326-

COPIES OF THIS REPORT

- Bureau
- New York (Enclosure) **AND**
- San Francisco (Enclosure) **AND**
- Los Angeles (Enclosure) **AND**
- Chicago (Enclosure) **AND**
- Dallas (Enclosure) **AND**
- Washington Field

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identification of the individuals negotiating for the contracting parties, has been set out in a schedule, photostatic copies of which are appended to this report as an attachment.

From the attached schedule, it appears that Contract #2, namely, W5ax-12927, was the first contract for items similar to those contained in the original offer in 1941 by JAMES A. MOFFETT. It will be seen that former Lt. JOHN J. WALSH represented the Government and he is to be interviewed concerning his recollection of the circumstances surrounding award of the contract.

It will likewise be seen that C. W. BARTHELMES was representing the Arabian American Oil Company along with Mr. E. S. DENHAM; however, BARTHELMES is reported to have written a letter to the President on February 25th last complaining about the exorbitant profits that ARAMCO has been making on its Navy contracts. Therefore, a lead is being set out to interview him concerning the circumstances of the awarding of the contract.

JORDAN also furnished photostats of the office copy of Contract W5ax-12927 which is identical in form to all of the contracts mentioned on the attachment and a copy of this contract is being enclosed to all offices. In this connection the background information and the alleged irregularities are set out in enclosed report of Special Agent MERRILL E. BRENNAN dated April 2, 1947, at Washington, D. C., which will be of assistance in covering the leads of this report.

By pretext call to the Washington Office of the Arabian American Oil Company, Snodgrass Building, it was determined that J. H. McGARRIBELL could be reached care of the main office of the Arabian American Oil Company, 225 Bush Street, San Francisco, California.

**ENCLOSURES: NEW YORK, SAN FRANCISCO, LOS ANGELES, RICHMOND, PHILADELPHIA**

- (1) One copy of the report of Special Agent MERRILL E. BRENNAN dated April 2, 1947, at Washington, D. C.
- (2) One photostatic copy of Contract W5ax-12927.

The Bureau has instructed that the investigation in this case be completed and report submitted to the Bureau and the Washington Field Office by June 26, 1947. Please be guided accordingly.

- P E N D I N G -

UNDEVELOPED LEADS

THE NEW YORK DIVISION:

At New York City:

Will interview Rear Admiral A. F. CARTER, USN (inactive), President, Overseas Tankship Corporation, 15 West 44th Street, concerning his knowledge of the negotiations by subject company, particularly Contract W5ax-12927. The allegation concerning his activities is set out on Page Three of enclosed report.

Will interview Vice-Admiral W. J. CARTER, USN (retired), Room 2301, 11 Wall Street, concerning his knowledge of the negotiation of Contract W5ax-12927. The allegation concerning his activities is likewise set out on Page Three of reference report.

Will interview Lt. Commander JOHN J. WALSH, Standard Oil Company of New Jersey, 26 Broadway, concerning his recollection of the negotiation of the contracts with Arabian American Oil Company and particularly his objections as set out on Page Four of reference report.

Will obtain full information concerning any instructions received from superior officers which affected the independent consideration of this contract on its merits.

THE SAN FRANCISCO DIVISION:

At San Francisco, California:

Will interview J. E. McGARRETHILL, who was an official of the Arabian American Oil Company in 1945, at the offices of the Arabian American Oil Company, 225 Bush Street, concerning his knowledge of the original negotiations for the sale of oil to the U. S. Navy and particularly McGARRETHILL's explanation of the alleged telephone call to Senior Naval Officers as set out on Page Three of reference report.

THE LOS ANGELES DIVISION:

At Los Angeles, California:

Will interview Lt. D. E. BOHNSCHNITZ, General Petroleum Corporation, 108 West Second Street, concerning his knowledge of the negotiations of ARANCO with the U. S. Navy and his knowledge of the



WFO 46-1644

excessive prices allegedly included in the ARAMCO bid. It will be noted that BODENSCHATE negotiated one contract with ARAMCO for crude oil on July 9, 1945.

**THE RICHMOND DIVISION:**

At Arlington, Virginia:

Will interview C. W. BARTHELMESS, 3201 North Abingdon Street, concerning the circumstances surrounding the awarding of contracts to ARAMCO by the U. S. Navy; it being noted that BARTHELMESS represented ARAMCO in the negotiations for Contract N5ax-12927 and subsequent renewals of that contract.

Will obtain from BARTHELMESS all information pertaining to the excessive profits allegedly being made by ARAMCO on the Navy contracts and any information which he may have concerning irregularities on the part of company officials. It will be noted that BARTHELMESS is no longer connected with ARAMCO organization.

**THE PHILADELPHIA DIVISION:**

At Philadelphia, Pennsylvania:

Will contact the appropriate official of the U. S. Naval Boiler Testing Laboratory in order to determine tests which may have been conducted of samples of products delivered by ARAMCO to the U. S. Navy under any of the contracts listed in the attachment to this report. Analysis of the attachment shows that on October 31, 1946, modification was made in the then current contract, canceling the fuel oil special, low viscosity. It is noted on Page Sixteen of reference report that a reference is made to these tests.

**THE WASHINGTON FIELD DIVISION:**

At Washington, D. C.:

Will make contact with other Government contracting officials in order to ascertain if products of similar quality were purchased during the pertinent contract periods which might indicate the current market price.

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1

THIS CASE ORIGINATED AT **WASHINGTON**

NY FILE NO. **46-1883 BHB**

|                                   |                                  |   |   |
|-----------------------------------|----------------------------------|---|---|
| REPORT MADE AT<br><b>NEW YORK</b> | DATE WHEN MADE<br><b>6/27/47</b> | PERIOD FOR WHICH MADE<br><b>6/23, 24, 26/47</b> | REPORT MADE BY<br><b>HOWARD FLETCHER, Jr.</b> |
|-----------------------------------|----------------------------------|---|---|

|  |  |
|--|--|
| TITLE<br><b>ARABIAN AMERICAN OIL COMPANY<br/>CALIFORNIA ARABIAN STANDARD OIL COMPANY</b> | CHARACTER OF CASE<br><b>FRAUD AGAINST THE GOVERNMENT</b> |
|--|--|

**SYNOPSIS OF FACTS:**

JOHN J. WALSH objected to flexible prices and same rate as Gulf Port's delivered as first submitted by ARABIAN AMERICAN OIL COMPANY. Fixed prices lower than Gulf Port agreed upon. He denies any pressure exerted by his superior officers with regard to this contract or knowledge of prices submitted in 1941 by this company. Rear Admiral H. D. HUBER, U.S. Navy, retired, had 3 meetings with J. F. DUCE, Vice President of ARABIAN AMERICAN OIL COMPANY including the meeting in September 1945 at which terms of contract #55X12927 agreed upon. Admirals HUBER, A. P. CARTER and W. J. CARTER have no knowledge of prices submitted in 1941 by ARABIAN AMERICAN OIL COMPANY. Admirals A. P. CARTER and W. J. CARTER recall no telephone calls between themselves with regard to contracts with this company. Admiral A. P. CARTER recalls no telephone calls with Mr. M. C. GARRETT, Vice President, STANDARD OIL COMPANY OF CALIFORNIA. He first contacted with regards to position with STANDARD OIL COMPANY OF CALIFORNIA October of 1945.

*Handwritten notes:*  
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**REFERENCES:**

Report of Special Agent Merrill W. Dromm, Washington, D. C., 4/2/47.  
Report of Special Agent Merrill W. Dromm, Washington, D. C., 6/20/47.

**DETAILS:**

Mr. JOHN J. WALSH, STANDARD OIL COMPANY OF NEW JERSEY, 26 Broadway, was interviewed concerning his recollections of

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|---|---|
| APPROVED AND FORWARDED:<br><i>Edward Schickel</i> | DO NOT WRITE IN THESE SPACES<br><b>46-1883-10</b> |
| 5 - Bureau (enc.)                                 | <p>RECORDED</p> <p>36 JUN 28 1947</p>             |
| 2 - Washington Field (enc.) SPECIAL DELIVERY      |   |
| 1 - Los Angeles (inf.)                            |   |
| 2 - New York                                      |   |

NY 46-1883

negotiations of the contract with the ARABIAN AMERICAN OIL COMPANY. He stated that he was assigned to the Fuel Purchase Section of the Bureau of Supplies and Accounts of the Navy Department as a Buying Officer. His duties as such was to deal with sellers in arranging terms of proposed contracts purchased by the Navy. When terms are agreed upon a memorandum of recommendation of approval is submitted to the Bureau of Supplies and Accounts. In cases where the amount is greater than \$200,000 a memorandum of approval is submitted to the Secretary of the Navy.

He stated that the negotiation of the first contract in 1945 with the ARABIAN AMERICAN OIL COMPANY was drawn out for several weeks. His objection to the contract as first submitted by the company was that they asked for a flexible price based on current U. S. Gulf Port quotations as appearing in the Oilgram News. He felt that in a contract of this type the price should be fixed for a definite time and since delivery was to be made in the Persian Gulf that it should be less than for delivery in Gulf Ports. He further stated that the terms of the contract were finally agreed upon at a meeting held in Rear Admiral H. D. HUBER's office with Mr. T. J. DUCE, Vice President of the ARABIAN AMERICAN OIL COMPANY. He and an attorney of the company were present at this meeting. At this meeting the company agreed on a fixed price formula. This price was based on Gulf Port prices less approximately 4¢ per barrel for gasoline, 10¢ per barrel for diesel oil and 5¢ per barrel for fuel oil.

Mr. WALSH advised that he had not been instructed by anyone or had pressure been brought to bear by his superiors, to recommend approval of the prices as appearing in Contract #W5axl2927. He stated that he had never seen in any Navy files papers relating to the prices submitted by the ARABIAN AMERICAN OIL COMPANY in 1941 and that his first knowledge that such prices had been offered came when he read it in the newspapers. He stated that on May 8, 1947 he had talked with Mr. WILLIAM P. ROGERS of the Senate Committee of Investigation of the National Defense Program, regarding this contract. He further stated that Admiral W. J. CARTER was not present at any of the meetings he had with any representative of the ARABIAN AMERICAN OIL COMPANY nor did Admiral CARTER ever talk to him pertaining to contracts with them.

Mr. WALSH advised that Lt. D. R. BOHNSCHATTZ, General Petroleum Corporation, 105 West 2nd Street, Los Angeles, California, was the other Naval officer who objected to the flexible prices as originally set out by the ARABIAN AMERICAN OIL COMPANY.

NY 46-1883

Since a lead was set out in referenced report to interview Mr. BORNHECHTZ, a copy of this report is being referred to the Los Angeles Office for information only.

Rear Admiral H. D. NUBER, United States Navy, retired, Beaux Arts Apartments, 310 East 44th Street, New York City, advised that he returned from the Southwest Pacific in June 1943 and was assigned as Chief of the Purchase Section of the Bureau of Supplies and Accounts until March of 1945 when he was made Assistant Chief of the Bureau of Supplies and Accounts.

He stated that he had received a letter from Captain CHESTER C. WOOD, United States Navy, with regard to his contacts with the ARABIAN AMERICAN OIL COMPANY. He turned this letter over to the writer and stated that he had no objections to it being photostated. Photostatic copies of Captain WOOD's letter are being sent to the Bureau and the Washington Field as enclosures to this report.

Admiral NUBER advises that to the best of his knowledge he had only three contacts with representatives of the ARABIAN AMERICAN OIL COMPANY. The first meeting was in August 1945 when Mr. J. F. DUKE, Vice President of the ARABIAN AMERICAN OIL COMPANY, advised him that their Ras Tanura Plant was expected to be completed in October of 1945. At this meeting no discussion of prices occurred but Mr. DUKE was very much interested in securing food for the people working on their plant at Ras Tanura. He requested any assistance along this line which Admiral NUBER could give him. Admiral NUBER advised him that the Navy could not do anything to help him directly or indirectly.

The second meeting occurred in September of 1945 at which time the terms of Contract #WJax12927 were agreed upon as related by Mr. JOHN J. WALSH to Captain WOOD. This is set out in paragraph (b) of Captain WOOD's letter as follows:

- (b) Mr. John J. Walsh (formerly Lt. USN on duty in the Fuel Purchase Section of the Bureau of Supplies and Accounts) has told the following story. During the negotiations for the first products contract with Arabian American in August and September of 1945, he, as buying officer, reached an impasse with the company officials. They demanded a flexible price based on current U.S. Oil quotations, while he demanded a fixed price over a stipulated period of time. During the impasse the company officials went to one or more officers

NY 46-1883

"attached to the Army-Navy Petroleum Board supposedly for support, and were eventually referred to you. You called Mr. Walsh to a meeting in your office with Mr. Duce, Mr. Dennis, a company lawyer and possibly Mr. Bartholmes. After a discussion of the matter, the company officials agreed on the fixed price formula and the contract was so signed. "

Admiral NUBER stated that about October or November of 1946 he had a third meeting with representatives of the ARABIAN AMERICAN OIL COMPANY with regard to a new contract. This contract was entered into at prices lower than the old contract. Admiral NUBER stated that at the time of negotiating this last contract with the company they were not as demanding of high prices as of the time of the old contract.

He stated that the above information pertaining to three meetings with representatives of the ARABIAN AMERICAN OIL COMPANY was furnished to Captain WOOD in a longhand letter of which he does not have a copy.

Rear Admiral ANDREW FRANCIS CARTER, United States Navy, inactive, advised that he accepted a commission in the United States Naval Reserve on March 8, 1942 for the purpose of handling the Navy's petroleum problem and its tankers. He was Executive Officer of the Army-Navy Petroleum Board as well as Director of the Fuel and Tank Division of the Office of the Chief of Naval Operations. The Army-Navy Petroleum Board became an agency of the joint chiefs of staff in 1943. Its functions were to coordinate matters concerning petroleum needs by the overseas command, to screen their requirements and to pass along to the respective procurement and handling agencies of the two services, information as to action required to meet the overseas demands. Questions as to price were never the responsibility of the Army-Navy Petroleum Board.

Admiral CARTER advised that he was interested in securing the necessary oil production needed for overseas operations. He stated that these needs ran as high as four million barrels in a day. He had made numerous calls requesting the securing of the needed oil but that none of these calls ever dealt with prices. He added that he does not recall any call from Mr. H. C. GARNESGILL, Vice President, Standard Oil Company of California, regarding contracts with the ARABIAN AMERICAN OIL COMPANY or any call to his brother Admiral W. J. CARTER with regard to contracts with this

NY 46-1383

company. He stated that he has been in the oil business since 1929 and that he was first asked by Mr. COLLIER, Chairman of the Board of the Standard Oil Company of California in October 1945, at which time ~~it~~ was generally known that he was leaving the Navy, if he would consider joining that company. He stated that he completed his terminal leave from the Navy on July 9, 1946 and sailed for England on that date to assume the duties as Resident Director of the United Overseas Petroleum Company, Ltd., in London and in October 1946 he returned to New York to be President of the Overseas Tank Ship Corporation, 17 West 44th Street. Admiral CARTER further stated that he knew nothing about the price offered by the ARABIAN AMERICAN OIL COMPANY in 1941 until it appeared in the newspapers.

Admiral A. F. CARTER made available a copy of his memorandum, dated April 28, 1947, which he submitted to the Senate Committee to Investigate the National Defense Program. Photostatic copies of this memorandum are being forwarded to the Bureau and Washington Field as enclosures with this report.

Vice Admiral W. J. CARTER, United States Navy, retired, Seaboard Construction Company, Room 505, 6 West 40th Street, advised that he was Assistant Chief of the Bureau of Supplies and Accounts. He stated that as such he had numerous contracts between the Navy and sellers crossing his desk; all such contracts involving more than \$200,000 had to be submitted to the Secretary of the Navy for final approval. He stated that these contracts were first reviewed by the Buying Officer and submitted to him through the Chief of the Purchase Section with their recommendations. In cases where the Buying Officer and the seller could not come to terms it was referred to the Chief of the Purchase Section. He stated that his only knowledge of the contracts with the ARABIAN AMERICAN OIL COMPANY was that a meeting was had between Rear Admiral H. D. WHEAT, Chief of the Purchase Section with Mr. J. I. DUKE, Vice President of the ARABIAN AMERICAN OIL COMPANY, with regard to the price to be charged for their oil products.

Admiral CARTER stated that he did not attend these meetings. He further stated that he does not recall any telephone call from his brother, Admiral A. F. CARTER with regard to the contract with the ARABIAN AMERICAN OIL COMPANY.

Admiral CARTER stated that he is now associated with Mr. BERNARD L. SMITH and so far as he knows Mr. SMITH has had no business dealings with

NY 46-1883

the Navy.

Admiral CARTER furnished copies of a letter dated April 25, 1947 which he submitted to the Senate Committee to Investigate the National Defense Program. Copies of this letter are being sent to the Bureau and the Washington Field as enclosures to this report.

ENCLOSURES: Bureau and Washington Field

1 - Photostatic copy of a letter from Captain CHESTER E. WOOD, United States Navy, to Rear Admiral H. D. NUBER, dated May 8, 1947.

2 - Photostatic copy of memorandum of Admiral ANDREW FRANCIS CARTER, dated April 28, 1947.

3 - Photostatic copy of letter dated April 25, 1947 from Admiral W. J. CARTER to Honorable Burton K. Wheeler, Counsel for Senate War Investigating Committee, Senate Office Building, Washington, D. C.

REFERRED UPON COMPLETION TO THE OFFICE OF ORIGIN

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1  
THIS CASE ORIGINATED AT

WASHINGTON, D. C.

FILE NO. 46-1186-

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|--|----------------------------------|---|--|
| REPORT MADE AT<br><b>SAN FRANCISCO</b>   | DATE WHEN MADE<br><b>6/26/47</b> | PERIOD FOR WHICH MADE<br><b>6/26/47</b> | REPORT MADE BY<br><b>MATTHEW J. LIGHTBODY</b> <i>hc</i>  |
| TITLE<br><b>ARABIAN AMERICAN OIL COMPANY;<br/>CALIFORNIA ARABIAN STANDARD OIL COMPANY.</b> |                                  |   | CHARACTER OF CASE<br><b>FRAUD AGAINST THE GOVERNMENT</b> |

**SYNOPSIS OF FACTS:**

J. E. MCGARRIGILL, Director & Vice President of Standard Oil Co. of California, and Director of Arabian American Oil Co., claims he had no part in negotiation of instant contract. Stated he knew Admiral ANDREW J. CARTER well, but denies ever having phoned him long distance or seen him personally for purpose of having him intercede with the Navy on a Government contract. He claimed he could not recall discussing this contract with Admiral CARTER at any time, but stated he may have as he was friendly and saw CARTER often in Washington, D.C. Denies that CARTER was given job by Standard Oil Co. of California because of assistance to Standard Oil in connection with any Government contract.

*1-9-25-47  
2-2-47  
7-2-47*

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**REFERENCE:**

Bureau letter dated May 1, 1947;  
Reports of Special Agent (A) MERRILL W. DRENNAN, dated April 2 and June 20, 1947 at Washington, D.C.

**DETAILS:**

**HANDLED**  
*7/2/47*

At San Francisco, California

The following investigation was conducted jointly by Special Agent HERMAN H. SULLIVAN and the writer:

Mr. J. E. MCGARRIGILL, Director and Vice President of the Standard Oil Company of California, 225 Bush Street, was interviewed at his office in the presence of Mr. FELIX SMITH, General Counsel and Director of Standard Oil Company of California. Mr. SMITH was present in the office of Mr. MCGARRIGILL when agents arrived for interview.

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| APPROVED AND FORWARDED:<br><i>Henry M. ...</i><br>SPECIAL AGENT IN CHARGE                    | DO NOT WRITE IN THESE SPACES<br>46-1186-15<br><b>RECORDED</b><br><b>INDEXED</b> |
| COPIES OF THIS REPORT<br>3 Bureau AND<br>3 Washington Field (46-1044) AND<br>1 San Francisco |   |



Mr. McGARREGILL stated he has nothing to do with the operating end of either Standard Oil Company of California or of the Arabian American Oil Company, although he is a Director of the latter company and has been since 1943. He stated he would, therefore, ordinarily not have any connection with the direct negotiations of any contract, this being a function of the operating end of the company, and that he has no recollection now of having taken part in any part of the negotiations in connection with the contracts mentioned in referenced reports. He stated he probably would have some reason to know that such a contract was being negotiated as a matter of policy with which he would be concerned, but that he now has no recollection of the matter.

Mr. McGARREGILL stated he did know Admiral ANDREW J. CARTER while Admiral CARTER was in the Navy and that he was very friendly with him. He denied, however, that he had ever phoned Admiral CARTER long distance or had seen him personally for the purpose of having him intercede with the Navy in connection with any contract in which Standard Oil Company was interested. He claimed he could not recall ever having discussed these particular contracts with Admiral CARTER, but stated he may have as he saw CARTER often in Washington, D.C. in connection with matters related to the Petroleum Board.

At this point in the interview Mr. SMITH made the comment that it appeared that the Standard Oil Company of California was being accused of having "paid off" Admiral ANDREW J. CARTER for favors done the Standard Oil Company by giving him a position with the Standard Oil Company after his retirement from the Navy. Mr. SMITH then asked Mr. McGARREGILL whether this were true, and Mr. McGARREGILL denied it emphatically.

Mr. McGARREGILL went on to state that Admiral CARTER had been employed by the Shell Oil Company prior to his entry into the Navy, was well liked and considered extremely capable, and was given a job with the Standard Oil Company of California because of his special ability. He pointed out that the first position held by Admiral CARTER with the Standard Oil Company was as General Manager in London, England of one of Standard's subsidiaries. Subsequently, Standard Oil Company had purchased the Texas Company's interests in Europe and had given Admiral CARTER the position of President of the Overseas Tank Ship Corporation because he was familiar with shipping problems and because the former manager of the Texas Company was slated to take over the position in London.

Mr. FELIX SMITH also pointed out at this point that in 1941 King Ibn SAUD had asked financial assistance of the Arabian American Oil Company. This company had conceived the idea that perhaps the financial aid which the King needed could be obtained by giving the King a certain amount of oil which he could dispose of and thereby obtain required funds. The oil was to be sold at a low price and this low price was offered to the Government in 1941, but was rejected. Mr. SMITH stated there was considerable doubt that the oil products offered could be supplied with the then existent facilities. He pointed out that no contract was ever entered into and other financial aid was rendered to the King, and that in 1945 the first contract between the Arabian American Oil Company and the Navy was negotiated and the prices arrived at were in conformity with the then existing cost price for oil and oil products.

SF 46-1186

In conclusion, Mr. McCARRELL denied that he had any knowledge of any irregularities in connection with the negotiation of this contract. He pointed out that in many instances the Standard Oil Company of California and its affiliates had loaned executives to the Navy and that these executives had subsequently returned to their employment with the Standard Oil Company. He voluntarily mentioned the name of Lt. Commander WELLMAN, who, he pointed out, had been, before the war, in charge of the Fuel Oil Division of the Standard Oil Company of California and who returned to that position after his release from the Navy after having served in the Bureau of Supplies and Accounts in the Navy during the war.

- REFERRED UPON COMPLETION  
TO THE OFFICE OF ORIGIN -

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1

THIS CASE ORIGINATED AT **WASHINGTON, D. C.**

FILE NO. **46-937**

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| REPORT MADE AT<br><b>PHILADELPHIA, PA.</b>   | DATE WHEN MADE<br><b>6/25/47</b> | PERIOD FOR WHICH MADE<br><b>6/23, 24/47</b> | REPORT MADE BY<br><b>ANTHONY J. SPLENDORE (A)</b>        |
| TITLE<br><b>ARABIAN AMERICAN OIL COMPANY<br/>CALIFORNIA ARABIAN STANDARD OIL COMPANY</b> |                                  |   | CHARACTER OF CASE<br><b>FRAUD AGAINST THE GOVERNMENT</b> |

**SYNOPSIS OF FACTS:**

Captain E. KRANZFELDER, USN, Philadelphia, advises that reports containing all information relating to tests conducted of products delivered by ARABIAN AMERICAN OIL COMPANY to the USN will be submitted to Captain CHESTER WOOD, USN, Washington, D.C., and copies of these reports may be obtained by this Bureau from Captain WOOD.

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CEP/R  
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- RUC -

*Handwritten:* G.I.R.S

**REFERENCE:**

Report of Special Agent MERRILL W. BRENNAN dated June 20, 1947 at Washington, D. C.

**DETAILS:**

AT PHILADELPHIA, PENNSYLVANIA

Captain E. KRANZFELDER, Director, Naval Boiler and Turbine Laboratory, Philadelphia Naval Shipyard, was contacted in an attempt to determine the results of the tests which may have been conducted of samples of products delivered by ARABIAN AMERICAN OIL COMPANY to the United States Navy under any of the contracts listed in the schedule of contracts furnished by the Washington Field Office, which contracts were issued by the United States Navy to the ARABIAN AMERICAN OIL COMPANY from July, 1945 through December, 1946.

Captain KRANZFELDER stated that the Philadelphia Naval Shipyard did make tests of all the fuel oil and some of the waste oil supplied under the contracts as set forth in the aforementioned schedule. He stated that all the gasoline, Diesel and some waste oil tests relating to products delivered by the ARABIAN AMERICAN OIL COMPANY to the United States Navy under the contracts listed in the aforementioned schedule, were performed at the Experimental Station,

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| <i>Handwritten signature</i>                                   | DO NOT WRITE IN THESE SPACES |
|  | 46-13746-14                  |
| 3 Bureau<br>2 Washington Field (4-1544) Enc.<br>2 Philadelphia | RECORDED<br>EX-2             |
| 187<br>JUN 27 1947<br>FBI                                      |                              |

Philadelphia file 46-937

Annapolis, Maryland.

Captain KRANZFELDER explained that in conducting tests at the Philadelphia Naval Shipyard, each man makes a particular analysis as to a certain desired quality in the product, and each man submits the results of his test and a complete report is written. He advised that this report contains the results of each test, as well as conclusions and recommendations. He stated that this report is mimeographed, and copies of all reports are sent to and maintained at the Bureau of Ships, Washington, D. C. He said that before making copies of these reports available to the FBI, he desired to obtain permission from the Bureau of Ships at Washington, D. C.

Captain KRANZFELDER telephonically contacted Captain WILLIAM A. WICKY, Bureau of Ships, Room 2711, Building T-5, Washington, D. C., and Captain WICKY requested KRANZFELDER to send two mimeographed copies of each of the desired reports to him (Captain WICKY) at Washington, D. C. Captain WICKY stated that he would make these copies available to Captain CHESTER C. WOOD, Office of the Judge Advocate General, United States Navy, Washington, D. C., and the FBI should contact Captain WOOD at Washington, D. C. to obtain these reports.

Accordingly, Captain KRANZFELDER advised that he will immediately send to Captain WICKY two copies of each of the reports containing the results of tests of fuel oil and some crude oil, which tests were made of samples of products delivered by the ARABIAN AMERICAN OIL COMPANY to the United States Navy under the contracts listed in the aforementioned schedule. A copy of the schedule containing the contract number, contract date, contract period, and product was made available to Captain KRANZFELDER to assist him in obtaining the desired reports from his files.

Captain KRANZFELDER stated that copies of the reports containing the results of tests conducted by the Experimental Station at Annapolis, Maryland, as set out hereinbefore, may also be obtained through Captain WOOD.

ENCLOSURE TO WASHINGTON FIELD DIVISION:

Photostatic copy of Contract No. W-12927, which copy was furnished to this office by the Washington Field Division.

- REFERRED UPON COMPLETION TO THE OFFICE OF ORIGIN -

Philadelphia file 46-937

UNDEVELOPED LEADS

THE WASHINGTON FIELD DIVISION

AT WASHINGTON, D. C.

Will contact Captain CHESTER C. WOOD, Office of the Advocate General, United States Navy, and request copies of reports containing results of laboratory tests made by the Naval Boiler and Turbine Laboratory, Philadelphia Naval Shipyard, Philadelphia, Pennsylvania, and the Experimental Station, Annapolis, Maryland. These tests were conducted on samples of products delivered by the ARABIAN AMERICAN OIL COMPANY to the United States Navy under contracts listed in the schedule in referenced report.

CC: MR. PENNINGTON  
MR. AULENBECHER

SAC, Washington Field

June 28, 1947

Director, FBI

ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FAC

Re: Report of James E. Daley dated June 25, last, at Los Angeles.

A review of this report reflects that Mr. Bedenschatz, who negotiated this contract, has advised that he could not give any definite statements concerning this contract at this date from memory. However, he had dictated a complete memorandum for the Navy Department concerning the progress of the negotiation and other details which he cannot at this time recall. It is noted from reference report that no undeveloped lead has been set forth in order to obtain a copy of this memorandum.

It is desired that immediate steps be taken to obtain a copy of this memorandum. It is desired that this matter receive immediate attention and the Bureau be advised of the results of your inquiry at the Navy Department no later than the close of business, Tuesday, July 1, next.

100-13326

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*[Handwritten signatures and initials]*

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L.A. 46-1435

purchase of fuel to meet the Navy requirements. Mr. BODENSCHATZ advised that he was aware that the Brewster Committee was making inquiry concerning the Navy contracts with the ARABIAN AMERICAN OIL COMPANY and that in April, 1947, Mr. FLANAGAN of the Brewster Committee interviewed him in Los Angeles.

In May, 1947, he was further interviewed by ex-Senator WHEELER whom he believed was counsel for the Brewster Committee. No signed statements were furnished by him, he stated, because he had little information to give concerning the particular contract which he negotiated. He advised that he was hesitant about giving any statement concerning the contract at this date from memory because at the time the contract was negotiated he dictated a complete memorandum for the Navy files concerning the progress of the negotiation and the details concerning it which he does not recall at this time. For this reason, he stated, he would prefer that such memorandum be relied upon rather than discussing at this time from memory. Mr. BODENSCHATZ stated that the above contract negotiations with the ARABIAN AMERICAN OIL COMPANY do not stand out in his memory any more than any other contract he negotiated because during his period of duty in Washington, D.C. he negotiated hundreds of such contracts with many different oil companies.

Mr. BODENSCHATZ stated that he was personally acquainted with Mr. H. G. DENHAM, Manager of Sales of the ARABIAN AMERICAN OIL COMPANY, with whom he negotiated the above contract, and that he does have some recollection as to differences of opinion regarding the prices asked for in the contract. He stated that such differences of opinion which he does not recall at this time would be reflected in his memorandum which he submitted for the Navy Department files. Mr. BODENSCHATZ stated that at the time he negotiated the above contract with Mr. DENHAM he was not aware of any previous offer of the ARABIAN AMERICAN OIL COMPANY in 1941 or any time offering gasoline, diesel oil and fuel oil at much lower prices; that at the time the contract of July, 1945 was negotiated the contract was finally accepted after considering the various factors such as supply and demand that would enter into such prices in 1945.

Mr. BODENSCHATZ was asked if it would have made any difference as far as the negotiated price of the July, 1945 contract was concerned if he knew that the same fuel was offered to the Government in 1941 at a much lower figure. He stated that he would be unable to answer that question. He stated that his name was mentioned in the DENHAM PARSON column along with the name of Lieutenant SALES as being opposed to the high price of fuel which the Navy paid the ARABIAN AMERICAN OIL COMPANY. He was then asked if at the time, July, 1945, he thought the price he negotiated was high. He would not state yes or no to that question and advised that he would just rather state that there was a difference of opinion on the price negotiation with Mr. DENHAM; that the memorandum which he submitted at the time would have contained all of the details.

Mr. BODENSCHATZ advised that in handling the negotiation for the purchase of fuel oil for the Navy he in every instance submitted such a memorandum which was sent to higher authority in the Navy which authority made the final approval on the negotiated contract.



Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

DATE: June 25, 1947

FROM : SAC, New York

SUBJECT: ARABIAN AMERICAN OIL COMPANY,  
CALIFORNIA ARABIAN STEAMSHIP OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

Re report of SA Merrill W. Drennan dated 6/20/47 at Washington, D. C.

It has been ascertained from the Seaboard Construction Corp. that Admiral W. J. CARTER, USN (retired), will not be in New York until 6/26/47. A request for an appointment with Admiral CARTER on that day has been made.

Admiral ANDREW J. CARTER, USN (inactive), is in Washington at present but is expected back in New York on 6/26/47. An appointment has been made to interview him at 10 A.M. on that day.

This investigation will be completed and a report submitted to the Bureau and Washington Field Office by 6/28/47.

G. L. R. 5

cc: Washington Field

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SAC, Washington Field

May 1, 1947

Director, FBI

ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

EX-73

2-454

Rebulet March 17 last and report of SA Merrill L. Dawson dated April 2, 1947, at Washington, D. C.

There is transmitted herewith one copy of the Department memorandum dated April 28 last in which it is requested that a complete investigation be made of all charges involved in this matter and that the investigation be expedited as much as possible. In view of the Department's request, it is desired that the investigation requested of your office in reference letter be completed as soon as possible. It is expected that a comprehensive report containing this information will be received at the Bureau within thirty days after receipt of this letter.

Re: ~~as above~~

RGA:dlt

46-13326

R-9

*Q*  
*WTC*

Mr. Tolson  
Mr. E. A. Tamm  
Mr. Clegg  
Mr. Glavin  
Mr. Ladd  
Mr. Nichols  
Mr. Rosen  
Mr. Tracy  
Mr. Carson  
Mr. Egan  
Mr. Gurnea  
Mr. Harbo  
Mr. Hendon  
Mr. Pennington  
Mr. Quinn  
Mr. Nease  
Miss Gandy

COMMUNICATIONS SECTION  
MAILED 3  
MAY 1 - 1947 P.M.  
46-13326

Serial 8

Office Memorandum • UNITED STATES GOVERNMENT

TO : THE DIRECTOR

DATE: 4-4-47

FROM : MR. EDW. A. TAMM

SUBJECT:

*Arabian American Oil Company*

|                |  |
|----------------|--|
| Mr. Tolson     |  |
| Mr. E. A. Tamm |  |
| Mr. Clegg      |  |
| Mr. Glavin     |  |
| Mr. Ladd       |  |
| Mr. Nichols    |  |
| Mr. Rosen      |  |
| Mr. Tracy      |  |
| Mr. Carson     |  |
| Mr. Egan       |  |
| Mr. Gurnea     |  |
| Mr. Harbo      |  |
| Mr. Hendon     |  |
| Mr. Pennington |  |
| Mr. Quinn      |  |
| Mr. Nease      |  |
| Miss Gandy     |  |

Assistant Attorney General John Sonnett called to indicate that the Attorney General had instructed him to handle a letter addressed to the Attorney General by Secretary of the Navy Forrestal and in which it was requested that an investigation be made into the Saudi-Arabian oil situation in which you will recall the newspapers had indicated that the Navy let a contract which was not to the best interests of the government. I told Mr. Sonnett that this matter was already under investigation by the Bureau since we had received a request for such an investigation from the War Frauds Section of the Criminal Division a week or more ago. Sonnett stated that neither he nor the Attorney General knew that the Criminal Division had requested the investigation. Sonnett wanted to be furnished with a copy of the memorandum prepared by the Criminal Division requesting the investigation and I told him we had no copies other than our file copy and I suggested that he obtain a copy of the memorandum from the Criminal Division which had prepared it.

*1-18*

Sonnett desired to be furnished with copies of reports which are submitted in this case and I told him that in addition to furnishing reports to the Criminal Division, we would also furnish them to the Claims Division.

EAT:rl  
cc-Mr. Ladd

~~SECRET~~

46-13326-7  
F B I  
1 APR 24 1947

~~SECRET~~

EX-8

*[Handwritten signature]*

Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. D. M. Ladd

DATE: April 11, 1947

FROM : L. R. Pennington

SUBJECT: ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

G. I. R. 5

|                |  |
|----------------|--|
| Mr. Tolson     |  |
| Mr. E. A. Tamm |  |
| Mr. Clegg      |  |
| Mr. Glavin     |  |
| Mr. Ladd       |  |
| Mr. Nichols    |  |
| Mr. Rosen      |  |
| Mr. Tracy      |  |
| Mr. Carson     |  |
| Mr. Egan       |  |
| Mr. Gurnea     |  |
| Mr. Harbo      |  |
| Mr. Hendon     |  |
| Mr. Pennington |  |
| Mr. Quinn      |  |
| Mr. Nease      |  |
| Miss Gandy     |  |

You inquired as to whether the attached memorandum and report covers the request made of the Bureau by the Department.

The Department did not make any detailed request but asked that a complete and thorough investigation of the complaint be made. The attached report and memorandum give complete details concerning the original offer to the Government in 1941 and the reasons why the Navy refused this offer at the time. They also contain information relative to the reasons why the Navy entered into a contract with the Arabian American Oil Company in 1945, which called for the payment of considerably higher prices than were offered in 1941.

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We have conducted no investigation relative to the circumstances surrounding the negotiations and awarding of the 1945 contract, because of the satisfactory explanations given by the Navy in refusing the 1941 offer and because there is no reason to believe that any fraud was practiced on the Government as a result of the contract entered into in 1945. The only questionable item in this regard is the higher prices paid in 1945. This in itself is not believed to be an indication of fraud with the result that any investigation concerning this matter would be merely a fishing expedition.

I do not believe that any detailed investigation concerning the awarding of this contract should be made in the absence of a specific request by the Department. The attached memorandum to Mr. Caudle advises him that the Bureau will not conduct an investigation relative to this contract in the absence of a specific request.

Attachment

RGArwjs

RECORDED 146-13326-5  
EX-20 F B I  
32 APR 21 1947

Handwritten initials and signature: JH, JKY, P.H.

APR 25 1947

Mr. Charles L. Condit, Assistant Attorney General  
Crustal Division  
Director, FBI

April 11, 1947

ARABIAN AMERICAS OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
NAVAL MATRIOT FOR GOVERNMENT

Reference is made to your memorandum dated March 11, 1947, your reference 146-3840, TLO:KRW:rb, in which you request the Bureau to conduct an investigation for the purpose of ascertaining whether a fraud has been perpetrated on the United States Government as a result of a contract entered into by the Navy Department and the California Arabian Standard Oil Company.

There is transmitted herewith two copies of the closing report of Special Agent (A) Merrill F. Brownson dated April 2, 1947, at Washington, D. C. The review of this report reflects that in April of 1941, the California Arabian Standard Oil Company, then known as the Arabian American Oil Company, offered to furnish to the United States Government \$4,000,000 worth of petroleum products annually for the Arabian Gulf. It appears that one of the main reasons why this offer was made was because King Ibn Saud of Saudi Arabia, originally made funds as a result of the emergency which arose because of World War II. Although it is not definitely stated in Mr. J. A. McTott's letter to the President, in which the offer was made, it appears that one of the primary reasons for contacting the President in this regard was the fear on the part of the oil company that unless funds were made available immediately to King Ibn Saud, the entire Arabian world may have possibly been thrown into a chaos resulting in the loss of the oil rights in Saudi Arabia held by the oil company. This offer was referred by the President to the Secretary of the Navy who advised that this offer should not be used by the Navy because of its high military content. Other reasons given by the Navy Department which were not made a matter of record at the time the offer was referred, factored in that at the time the offer was made there was an over-production of oil in the United States. The Administration was allowed to American shipping, resulting in extremely high transportation costs and the fact that the oil, so shipped, could not be stored with other oil being used by the Navy, thereby greatly hampering the logistic problem. The immediate action taken by the Navy's petroleum in this matter was fully quoted in the attached report, and dated May 1, 1947, of the Secretary of the Navy by E. A. Seward, Rear Admiral, United States Navy, Director of Naval Petroleum Activities, and another dated May 20, 1941, to the President of the United States from Mr. Frank Bost, who at that time was Secretary of the Navy.

On page 16 of the attached report is a memo release made by the Navy Department dated February 21, 1947, in which the reasons are given why the Navy Department saw fit to purchase oil from the same source a few years after the offer was referred. The reasons in general state that this offer will be withdrawn by the Navy Department. It is not stated why other Navy fuel had to be purchased if the offer was rejected. In view of the fact that this particular fuel is

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Memorandum to Mr. T. C. Condie, Assistant Attorney General

supplied only to the Eastern Pacific areas, no operating difficulties are encountered and its use has solved the logistic problem of hauling fuel across the Pacific Ocean. The Navy further advises that this source is very convenient for supplying oil to the American Fleet operating in the Asiatic area and that its use prevents a depletion of American oil sources. The Navy Department also advised that were oil procured for use of Naval forces west of Pearl Harbor purchased at the nearest and lowest priced American source, the cost at that source would be approximately 40% greater than the price paid the Arabian American Oil Company. In addition, the cost of transporting this oil would be considerably greater than the cost of transporting the oil from the Persian Gulf to the American forces operating in the Western Pacific.

During the course of the investigation of this case, it was determined that the Senate Committee investigating the National Defense problem held public hearings on this matter on March 28 and 29, 1947. As a result of the information obtained by the Committee, the former United States Senator Burton K. Wheeler, has been appointed to conduct a thorough inquiry into this matter and to report as soon as possible to the Executive Session of the Committee, at which time a decision will be made relative to further Committee action.

In view of the contents of the enclosed report, together with the fact that the Senate Committee is actively engaged in an inquiry into this matter, you may desire to consider the advisability of examining the results of the investigation made by the Committee. In view of the information obtained from the Navy Department concerning its reasons for and the circumstances surrounding a refusal of the original offer in 1941, no investigation has been conducted relative to the circumstances surrounding the negotiations and award of the contract subsequently entered into by the oil company and the Navy Department. No investigation relative to this matter will be made in the absence of a specific request by the Department.

In accordance with a telephonic request made of Mr. Edward A. Tamm of the Bureau on April 4, 1947, one copy of this memorandum, together with one copy of the report of Special Agent (A) Merrill E. Drummond dated April 2, 1947, at Washington, D. C., is being sent to Mr. John F. Bennett, Assistant Attorney General, Claims Division.

cc - Mr. John F. Bennett, Assistant Attorney General

Enclosure

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1

THIS CASE ORIGINATED AT **WASHINGTON, D. C.**

FILE NO. *46-13376*

|   |                                 |   |  |
|---|---------------------------------|---|--|
| REPORT MADE AT<br><b>WASHINGTON, D. C.</b>  | DATE WHEN MADE<br><i>4/2/47</i> | PERIOD FOR WHICH MADE<br><i>3/19, 20, 28, 29/47</i> | REPORT MADE BY<br><b>MERRILL W. DEEMER (A) MWD:EM</b>    |
| TITLE<br><b>ARABIAN AMERICAN OIL COMPANY;<br/>CALIFORNIA ARABIAN STANDARD OIL COMPANY</b> |                                 |   | CHARACTER OF CASE<br><b>FRAUD AGAINST THE GOVERNMENT</b> |

**SYNOPSIS OF FACTS:**

Information was received from the Department which indicated that subject company offered to sell gasoline Diesel oil and fuel oil to the United States Government in 1941, which offer was refused by the United States Navy due to the technical incompatibility of Middle Eastern oil with oil from other major sources. The complaint further alleged that the United States Navy in 1945 purchased the same commodities at approximately 100% more than the 1941 prices. It was further alleged that certain officers of the United States Navy may have sponsored the contracts at the higher price in an irregular manner. Investigation has developed that the offer was made in 1941 to President Roosevelt and the United States Navy, together with other Government departments that had knowledge of the offer. The Office of the Judge Advocate General, United States Navy, made available background information pertaining to this matter.

- 6 -

**REFERENCE:** Bureau letter dated March 17, 1947.

**DETAILS:** AT WASHINGTON, D. C.

The above referenced letter enclosed a copy of a

**DO NOT WRITE IN THESE SPACES**

**CLASSIFIED**

46-13376-4

**F B I**

APR 8 1947

5 Washington Field

WFO 46-1644

Departmental memorandum dated March 11, 1947, from Assistant Attorney General THEODORE L. CAUDER, which memorandum is quoted below:

\*Arabian American Oil Company;  
California Arabian Standard Oil Company

\*A complaint involving the companies named in the caption above and certain officers and former officers of the Navy has been brought to my attention. The complaint is substantially as follows:

\*The Arabian American Oil Company, which is the owner of concessions in Saudi Arabia, estimated to be worth \$20,000,000,000, is owned jointly by Standard Oil of California and the Texas Company.

\*In April of 1941 the Arabian American Oil Company, which was then known as the California Arabian Standard Oil Company, submitted an offer in writing through its representative, James A. Moffett, to supply petroleum products for the next five years to any government department at the following prices:

\*Gasoline — 3½¢ a gallon  
Diesel Oil — 75¢ a barrel  
Fuel Oil — 40¢ a barrel

\*All of these prices were f.o.b. the refinery in the Persian Gulf.

\*Subsequently, the Navy entered into contracts with the same companies for petroleum products at the following prices:

\*Gasoline — approximately 6¢ a gallon  
Diesel Oil — \$1.68 a barrel  
Fuel Oil — \$1.05 to \$1.17 a barrel

\*These prices were also f.o.b. the refinery in the Persian Gulf.



It is estimated, without having the complete figures for all the years involved and on the basis of such figures as are available, that the Navy has paid more than \$50,000,000 to Arabian American under this set-up over the original offer submitted by Koffelt.

When the higher offer was submitted by Arabian American, two young contracting officers who were Lieutenants assigned to the Bureau of Supplies and Accounts in the Navy Department, objected strongly on the ground that the price was much too high. Thereupon, a long distance telephone call was made by Mr. McGarrigill, a director and vice president of Standard Oil of California, and also a director of Arabian American Oil Company, to Admiral Andrew J. Carter, either chairman or director of the Army-Navy Petroleum Board in Washington. Admiral Carter thereupon got in touch with his brother, Admiral E. S. Carter, who is currently officer of the Bureau of Supplies and Accounts in the Navy; all objections to the higher price were immediately withdrawn and the contract was entered into at the higher price. Admiral Andrew Carter has since retired from the Navy and is now President of the Overseas Tank Ship Corporation, a subsidiary of Standard Oil of California. Other members of the Army-Navy Petroleum Board who have obtained positions with the Standard Oil of California are Colonel Cavanaugh and a Lieutenant Commander Kallman, who was with the Bureau of Supplies and Accounts in the Navy and is now an official of Standard Oil of California. Weissen is reported to be a decent individual who was merely acting under orders in this whole transaction.

On February 25 a Mr. C. V. Bartholomew, formerly an engineer in charge of the Washington office of Arabian American Oil Company and the individual who negotiated these contracts with the Navy, wrote a letter to the President complaining about the exorbitant profits that the Arabian American Oil Company was making on its contracts with the Navy and printed out further that the fuel oil which the Navy was purchasing from the Arabian American Oil Company had, after test by the U. S. Naval Boiler Testing Laboratory in Philadelphia, been rejected as unfit for Navy use. Despite this adverse report, the Navy has continued to buy this fuel oil and has recently entered into a new contract with the Arabian American Oil Company.

"One of the junior officers who complained of the excessive prices being paid by the Navy was John Walsh, a senior lieutenant in the Navy, now employed by Standard Oil Company of New Jersey. The name of the other junior officer is not presently known.

"While the facts charged in this complaint do not in themselves establish the violation of any federal criminal statutes, they do indicate the possibility of such violations. I shall, therefore, appreciate it if you will initiate a complete and thorough investigation of the complaint at your earliest convenience and expedite it as much as possible. Please keep me fully advised as the investigation progresses.

"The complaint has also been brought to the attention of the Senate Committee to Investigate the National Defense Program, of which Senator Brewster is chairman."

The Bureau letter requested a thorough investigation into this matter. However, due to a current interest of the Senate Committee Investigating the National Defense Program (Brewster Committee), Bureau instructions were modified to the extent that inquiry should be limited to the establishment of the fact that the United States Government and in particular the United States Navy was cognizant of the original offer in 1944.

Accordingly, Rear Admiral G. S. COLCLOUGH, Room 2907, Navy Department, was contacted in order to obtain documentation of the facts as alleged. Admiral COLCLOUGH advised that his office had been contacted within the past few days by the Brewster Committee and that the matter insofar as the Judge Advocate General's Office is concerned was being handled by Captain CHESTER C. WOOD, USN, who has charge of Congressional Liaison on investigative matters.

Captain WOOD was contacted at which time he furnished the following information concerning the Navy records:

He explained that the correspondence files indicate that the original documents in this matter which had been maintained prior to 1944 were transmitted to the White House upon the request of the President at the time that the United States Government was considering the erection of a pipe line in the Middle Eastern area,

WFO 46-1644

reaching from Saudi, Arabia, to the Mediterranean. However, Captain WOOD by contact with the office of the STANDARD OIL COMPANY OF CALIFORNIA in New York City obtained what was represented to him to be a copy of the original offer. Captain WOOD was very careful to explain that the information set out hereinafter was obtained from the office of subject company and did not represent original Navy documents. This letter, dated April 16, 1941, together with a memorandum and a proposal are quoted below:

130 East 43d Street  
New York City  
April 16, 1941

My dear Mr. President:

Referring to the interview which you so kindly gave me on Wednesday, April 9th, and in line with your request, I am attaching hereto a memorandum covering the existing situation in Saudi Arabia. Also a proposal which we hope will be acceptable as a means of providing funds for the Saudi Arabian Government.

Our representatives have had numerous conferences with the King. His financial situation is desperate. The British Government had advanced him four hundred thousand pounds and he is endeavoring to have this increased to nine hundred thousand pounds. His budget requirement is conservatively estimated at \$10,000,000.

You referred to the four Danish Tank Steamers which might be utilized to transport finished petroleum products. If the United States Government will advance to the King of Saudi Arabia \$6,000,000 annually for the next five years, we feel confident that we can work out with the King an arrangement whereby he will deliver through us the following quantities of petroleum products, and at the prices mentioned:

|                                  |               |
|----------------------------------|---------------|
|                                  | F.O.B. Ship   |
|                                  | Peruvian Gulf |
| 1,800,000 BBLs. of Gasoline at   | 30 cents      |
| 2,660,000 BBLs. Of Diesel Oil at | 75 cents      |
| 3,400,000 BBLs. of Fuel Oil at   | 40 cents      |
| 7,860                            |               |

totalling approximately \$6,000,000 worth of petroleum products annually.

WFO 46-1644

"The King's normal revenue /from Pilgrimage and customs/ has practically disappeared. His expenses have been very materially increased. Not only on account of the war, but due to the drought this past year, so that he has been forced to feed two thousand of his subjects.

"I sincerely trust that some way may be found under existing legislation to provide King Ibn Saud financial assistance, which he so urgently needs in order to maintain his Government in a stable condition. We believe that unless this is done, and soon, this Independent Kingdom and perhaps with it the entire Arab world, will be thrown into chaos.

"Yours very sincerely

/s/ J. A. MOFFETT

~~\*\*\*\*\*~~

"April 10, 1941

The President  
The White House  
Washington, D. C.

M E M O R A N D U M

"King Ibn Saud of Saudi Arabia formerly depended largely on the revenue from the pilgrimage and customs duties to finance his government. Due to the war, this revenue has been reduced to a negligible amount.

"The only economic resources of any substantial value of Saudi Arabia are its oil resources, the development of which has been seriously interfered with on account of the war.

"The King has privately expressed himself, and we believe sincerely, as strongly pro-ally. No other man in the Arab

"countries, nor among Moslems the world over, commands prestige equal to his. In order to feed and maintain control of his people, which is essential to maintain his prestige in the Arab world and elsewhere and to prepare, even in a moderate way, for equipping his own soldiers for service, he estimates that he will require \$10,000,000 per annum until the emergency has passed and he recently demanded that the California Arabian Standard Oil Company supply him with \$6,000,000 during the year 1941. In addition to this, the British have promised him 400,000 Pounds (L) sterling during 1941, which he hopes to increase to 900,000 Pounds (L).

"Based on the best information which we have been able to obtain it is our opinion that the King's estimate of \$10,000,000 for this year is moderate and close to a minimum figure for essential expenditures.

"The California Arabian Standard Oil Company owns an oil concession in Arabia consisting of approximately 162,000,000 acres and embracing all the probable oil territory of the country. This area is approximately equal in size to the states of California and Oregon. The original concession was acquired in 1933 and runs to 1993. The remaining area was acquired in 1939 and runs until 1999. The company is of American nationality and 50 per cent is owned by the Standard Oil Company of California and 50 per cent by the Texas Corporation. These two companies between them have approximately 160,000 American stockholders.

"The development work commenced in 1933 and to date the company has discovered on three structures an estimated 750,000,000 barrels of crude oil reserves and there are many other structures of considerable promise on this concession. The Calarabian Standard Oil Company has so far spent approximately \$27,500,000 on this development. In addition, the company has advanced to the King against future royalties \$6,000,000. It has now come to a point where it is impossible for the company to continue the growing burden and responsibility of financing an independent country, particularly under present abnormal conditions. However, the King is desperate. He has told us that unless necessary financial assistance is immediately forthcoming, he has grave fears for the stability of his country.

PROPOSAL

- \*1. We propose that the United States Government purchase from the Saudi Arabian Government finished petroleum products to the value of six million dollars annually for a period of five years.
- \*2. The company will contract with the King to produce, manufacture and load such products for his account at a Persian Gulf Port.
- \*3. The King will waive royalty on an amount of crude oil corresponding at current royalty rate to \$6,000,000.
- \*4. The products taken under this arrangement, except that taken for use by the U. S. Navy or other U. S. Government purposes within the area, would have to be moved outside an area approximately defined as follows: Egypt, the East Coast of Africa, South Africa, Australia, India, the Straits Settlements, China, Japan and possibly the Philippines.
- \*5. We suggest that for the purpose of determining the quantity of products due under this arrangement an agreement be reached as to the prices of certain products to be supplied over an agreed period.
- \*6. We suggest that our State Department approach the British not only to increase the amount of money which the British have been advancing to the King, amounting to 400,000 Pounds (£) sterling per year, but also to request the British to continue to make such advances in sufficient amount, which, added to those made by the United States Government, plus any other revenue received by the King, will total approximately \$10,000,000 per year. Any British advances should be on a political and military basis and should not involve their getting any oil from this concession, the British at the present being well supplied from Iran, Iraq, and Bahrain, etc.\*

Captain WOOD indicated that on March 13, 1947, he received an official request for information from the Brewster Committee and that the Navy's position in this matter was set out in memorandum form on March 14, 1947, and the original was transmitted to the Committee. Captain WOOD made available a copy of this memorandum and the contents are quoted below together with the enclosures thereto:

\*14 March 1947

MEMORANDUM

\*1. Introduction. On March 6, 1947, Mr. James A. Moffett issued a statement to the press in which, among other things, he alleged: (1) In 1941 the President, on the advice of the Navy Department, turned down an offer of the Arabian-American Oil Company made thru Mr. Moffett, Chairman of the Board, to sell petroleum products to the Navy at the dockside in the Persian Gulf, (2) because of its failure to accept this offer the Government has been forced to pay for petroleum from the same source at prices far in excess of those contained in the original offer, (3) He also called attention to the fact that former Army and Navy officers who, while in uniform, were in a position to effect government policies, are now in the employ of the companies involved in this incident.

\*2. From the records available it appears that the following is an accurate chronology of the highlights of the background:

- (a) Mr. Moffett made his offer to the President on about April 16, 1941. The President referred the matter to the heads of several agencies including the Secretary of the Navy.
- (b) In a memorandum to the Secretary of the Navy dated 17 May 1941, Rear Admiral E. A. Stuart then director of Naval Petroleum Reserves recommended against the proposal primarily on the basis of high sulphur content of Arabian products. (Enclosure (A)). This memorandum was slightly paraphrased and sent in a memorandum from Colonel Knox to the President dated May 20, 1941. (Enclosure (B)).

- “(c) No information is available as to what precise action was taken by the President in finally turning down the offer of Mr. Moffett.
- “(d) It is understood that Mr. Moffett subsequently retired from the company because of ill health and later filed suit against the company for approximately \$8,000,000 for non-payment of services rendered.
- “(e) In 1944 when announcement was made of a pipe line to be built from the Persian Gulf to the Mediterranean by the U. S. Government, Mr. Moffett made a statement in which he made virtually the same allegations as those referred to in paragraph 1 above. This statement was published in the National Petroleum News, issue of March 29, 1944. (Enclosure (C)).
- “(f) In February 1947 a Mr. Barthelness, a former Washington representative of the Arabian-American Oil Company, addressed a letter to the President and gave copies to the press in which were contained allegations of a nature related to those of Mr. Moffett. These allegations were answered by the Navy Office of Public Information on 27 February 1947 in response to queries by the press. (Enclosure (D)).
- “(g) Shortly after Mr. Moffett's statement, the press queried the Navy Department as to its position with regard to these allegations. In view of the Navy Department's policy to make no statements to the press on matters under cognizance by congressional investigative committees, Captain Wood discussed this matter with Mr. Header on March 13. Mr. Header stated that the Committee had no objection to the Department making such answer as it saw fit and specifically asked that an announcement be made by the Department that the Committee did have the matter under advisement. Accordingly, an answer to the press query was made in the late afternoon of March 13. (Enclosure (F)). The text of this answer was telephoned to Mr. O'Connell of the Committee about 5:30 P.M., March 13.



23. The crux of the situation seems to lie, insofar as the Navy is concerned, in the soundness of the Secretary's recommendation to the President that the proposal be not accepted. And, from the record this becomes a technical matter inasmuch as we are now using oil from the same areas that which was turned down six years ago by the Navy primarily because of its high sulphur content. Highlights of this particular situation are as follows:

- "(a) The reasons for rejection of the gasoline and diesel oil appear valid. The reason for the non-acceptance of the bunker fuel oil was given as a sulphur content in excess of that allowed by Navy specifications. In actual fact, in 1941, there was no limit to sulphur content in the Navy specifications, although there formerly had been a limit, and a high sulphur content had always been considered undesirable. It therefore appears that a superseded specification for bunker fuel must have been used in error when the memoranda were prepared. (See enclosure (E)).
- "(b) It is understood that Admiral Stuart has no recollection of the incident or of having written the memorandum. It is further understood that this request for technical advice was but one of many similar requests received by his office from time to time. It did not come under the official cognizance of Admiral Stuart who was charged only with cognizance over the Naval Petroleum Reserves.
- "(c) Although rejection of the oil was based primarily on its high sulphur content in Admiral Stuart's and Secretary Knox's memoranda, it is easy to see in retrospect that other reasons for such a rejection might have been raised, as for example: (1) There was an over-production of oil products in the United States at the time. Purchase of foreign oil would have been greatly resented by the domestic industry, (2) Extremely high cost, with the Mediterranean closed to American shipping, of transporting the Arabian oil to points of eventual distribution for naval use, (3) Incompatibility (unsuitability to mix with some other fuels) of the

oil thus adding greatly to the logistic problem. It seems reasonable to assume that these features were taken into consideration and yet not made a part of the written record.

4. It is a fact that the Navy is now using petroleum products from this same source and has been so doing since late in 1944 and at prices in excess of those quoted by Mr. Moffett in 1941. However, the current prices are extremely low when compared to others in the world market. Furthermore, other circumstances have so changed as to make its present use highly desirable. For example, the general quality of the refined products has improved considerably (See enclosure (E)). There was an over-production of domestic fuel in 1941. At the present time domestic fuel is in short supply and the use of foreign oil has become a virtual necessity. In 1941 there were few uses for naval fuel west of Hawaii or east of the eastern Atlantic, relatively long hauls from the Persian Gulf. At the present time, all of the Arabian fuel is being shipped to the Western Pacific (Marianas, China and Japan) so that transportation costs are less than those which would be involved with fuel from any other major field. Thus, the problem of incompatibility of the oil is greatly reduced and offers no operating difficulties.

5. No analysis has been made by the Navy Department as to the validity of Mr. Moffett's statement that millions would have been saved had his original offer been accepted. Such an analysis would involve many factors, such as, determination of where the oil would have been needed at that time; the transportation costs involved based on the number and types of tankers available for that specific service; the cost of the logistic problem involved by virtue of the relative incompatibility of the Arabian oil; possible loss in belligerent action. This is a long and laborious task and in view of the fact that the fuel was not considered suitable for Navy use at that time, the question appears to be a moot one.

6. The Navy's comments on the allegations made by Mr. Bartholmess are fully contained in the answer to the press made on that subject and herewith enclosed as enclosure (D).

7. Other than that above, the Navy Department has no comment to make on the allegations made by Mr. Moffett and Mr. Bartholmess.

WFO 46-1644

"8. This memorandum was prepared by Captain Chester C. Wood, USN, of the Office of the Judge Advocate General with the advice and assistance of representatives of the Bureau of Ships, the Bureau of Supplies and Accounts and the Director of the Navy Petroleum Reserves.

"CHESTER C. WOOD"

~~SECRET~~

"17 May 1941

MEMORANDUM FOR THE SECRETARY OF THE NAVY:

"1. I have investigated the possibilities of the Navy using oil from Saudi Arabia and I find conditions to be approximately as follows:

"2. The gasoline has a very low octane number, about 70, which corresponds to a second grade gasoline in commercial use in this country. It could not, therefore, be used in airplane service but could under necessity be used for ordinary purposes, although not advisable.

"3. The Diesel fuel has octane number of 55 and could be used from a purely operating standpoint, but on account of its high sulphur content its use is inadvisable and is not recommended. The sulphur content is 1.5 to 1.9% while Navy specifications have a maximum limit of 1%. The sulphur would have a very deleterious corrosive effect on the exhaust system.

"4. The fuel oil is of 14 A.P.I. gravity and viscosity under 65 at 122°F. Purely from an operating standpoint this fuel also could be used, but again its use is highly inadvisable for naval vessels on account of its high sulphur content. 3.9% Navy specifications sulphur limit is under 1%.

"5. The exhaust gases would have a very serious corrosive effect on the uptank spaces of naval ships and would also probably cause serious discomfort - if not more harmful effects - to the anti-aircraft personnel of the ship is exposed to the exhaust fumes.

"6. The gravity of the situation is appreciated, but Naval use of these fuels could only be recommended as a last resort.

"7. It is possible that use for a large part of these fuels might be found in the merchant service where the fuel specifications are not so strict for obvious reasons.

H. A. STUART  
Rear Admiral, U. S. Navy  
Director, Naval Petroleum Reserves

Enclosure A"

~~SECRET~~

May 20, 1941

**MEMORANDUM FOR THE PRESIDENT:**

"Recently you sent me a memorandum concerning the matter of giving some financial assistance to King Ibn Saud through the medium of purchasing \$6,000,000 annually of petroleum products for the next five years.

"I have had an investigation made of the oil produced in Saudi Arabia and find that its quality is not suitable for Navy use. The gasoline has a very low octane number, about 70, which corresponds to a second grade gasoline. It could not be used in airplanes and normally could not be used for ordinary purposes.

"The Diesel fuel oil has an octane number of 55, but on account of its high sulphur content Navy men say it is inadvisable to use it and do not recommend it. The sulphur content runs between 1.5 and 1.9%. Navy specifications have a maximum limit of sulphur of 1%. I am told the sulphur would have a very deleterious corrosive effect on the exhaust system.

"This high sulphur content also operates against the use of the fuel oil for Navy purposes. In the case of fuel oil, the sulphur content is 3.9% and the Navy specifications have a limit of 1%.

WFO 46-1644

"I appreciate the gravity of the situation in the Middle East and if needful, would be glad to see the small sum of money under question devoted to securing the military support of King Ibn Saud. I do not believe, however, there is any sound business reason for mixing that help up with the purchase of the type of oil produced in that field.

/s/ FRANK KNOX

Enclosure B\*

\*\*\*\*\*

"KNOX COOL TO ARAB OIL OFFER IN 1941, HOFFETT SAYS

"New York - James A. Hoffett, oil man and former federal housing administrator, answered here March 23 Navy Secretary Knox's claim that the Arabian pipeline 'marks the birth of a genuine American policy on foreign oil.' Mr. Hoffett asserted that Knox 'had turned down a proposition in 1941 through which virtually an unlimited amount of oil would have been made available to the Navy from Arabia.'

"The offer was made by me to President Roosevelt, who referred me to Secretary Knox,' Mr. Hoffett said. 'Under it the Navy would have received fuel oil at about 40 cts per bbl. and gasoline at 2½ cts per gal. in the Persian Gulf. The proposal did not involve the expenditure of an estimated \$120,000,000 to \$165,000,000 of taxpayers money. It called for loading the oil directly and without delay on the Persian Gulf docks, with water deep enough to accommodate battleships.

"Mr. Hoffett, who at that time was chairman of both Bahrain Petroleum Co. and California Texas Co., said he had never received official explanation why his offer had been refused. He pointed out, however, that the companies operating in Arabia had been forced to curtail their sales after the outbreak of war, and King Ibn Saud was dissatisfied with his dwindling royalties. Mr. Hoffett said the

WFO 46-1644

\*companies had to advance the King \$6,000,000 and were asked for another \$10,000,000. He said the plan was to give Ibn Saud cash through Lend-Lease, but that this proposal was thwarted because the country came in the British sphere of influence.

\*Mr. Moffett said an arrangement was finally worked out for a \$450,000,000 U. S. Loan to the British government with the stipulation that \$10,000,000 of it go to Ibn Saud.

NATIONAL PETROLEUM NEWS  
March 29, 1944

Enclosure (C)

\*\*\*\*\*

~~RESTRICTED~~

27 February 1947

| *Time        | Caller              | Query  | Answer                                     | H.D.N.    |
|--------------|---------------------|--|--|-----------|
| *1000<br>EJS | Morton, N.Y.<br>Sun | Present address Capt.<br>Roscoe MacFall, USN<br>(Ret)? | 7330 Monte Vista<br>Ave., La Jolla, Calif. | Cdr. Cook |

\*1030  
JDF  
Memo to POCs: A report, called to the attention of the Navy Department states that the samples of fuel oil purchased in the Middle East were adjudged 'unsatisfactory for Navy use.' The Naval Boiler and Turbine Laboratory tests fuel samples for compliance with specifications which are established for general naval use. While this particular oil, does not meet the specifications set up for general naval use, i.e., not being entirely compatible with fuel from all other sources. The high paraffinicity may present only a problem of handling a storage. When segregated and used alone, the fuel is suitable. It is a common practice of the Navy to segregate stocks of high pour and incompatible but otherwise satisfactory fuels in operating areas when tactical requirements dictate its use. This particular fuel is supplied only to the Eastern Pacific areas. When handled in this manner, no operating difficulties have been encountered. Its use has solved the difficult logistics problem of hauling fuel across the Pacific.

\*In addition, the Navy maintains a complete inspection and testing service in the Middle East. Such cargo is inspected

WFO 46-1644

\*certified and accepted. Unsatisfactory fuel is rejected. Doubtful cases are referred to the Bureau of Ships for decision.

\*It should be noted that the Navy's arrangement with Persian Gulf refineries has been in force for over three years. This source is convenient to the Operating areas in which it will be used; American sources of supply need not be tapped or otherwise depleted to serve the needs of the Fleet.

\*The savings to the Government through purchase of this oil are of considerable magnitude. Were oil procured for use of Naval forces west of Pearl Harbor purchased at the nearest and lowest-priced American source, the cost at that source would be 42% greater than the price paid the Arabian American Oil Company. In addition, the cost of transportation from the United States source to naval forces in the far Pacific would be considerably greater than the cost of transportation from the Arabian American Company shipping points.

\*1630 Memo to PWDs: In response to queries it may be stated that  
RCJ a General Court Martial has been ordered to convene Monday, March 3, 1947, at Naval Gun Factory, Wash. D. C. for the trial of Lt. Cdr. Edward H. Little, USN, of Tucson, Ariz. & Decatur, Ill. No other info available.

|       |         |                      |                     |             |
|-------|---------|----------------------|---------------------|-------------|
| *1630 | Migs    | Authorized peacetime | Proposed '48 budget | President's |
| EJS   | US News | strength of Navy?    | calls for overall   | Budget Mes- |
|       |         |                      | strength 473,236    | sage        |
|       |         |                      | (Approx. 10% Of-    |             |
|       |         |                      | ficers)             |             |

Enclosure (D)

\*\*\*\*\*

1941

1947

|             | 1941            |              |            |            | 1947                            |                       |           |            |
|-------------|-----------------|--------------|------------|------------|---------------------------------|-----------------------|-----------|------------|
|             | SULPHUR CONTENT |              | OCTANE     |            | SULPHUR CONTENT                 |                       | OCTANE    |            |
|             | Specified       | As Offered   | Specified  | As Offered | Specified                       | As Offered            | Specified | As Offered |
| Bunker Fuel | No Limit        | 3.9          | -          | -          | No Limit                        | 2.5% Average          | -         | -          |
| Diesel Oil  | 1.0% Max.       | 1.5% to 1.9% | -          | -          | 1.0% but allow 1.25% on waiver  | about 0.8%            | -         | -          |
| Gasoline    | 0.1% Max.       | ?            | 72 Minimum | 70         | 0.10% but allow 0.25% on Waiver | Within Specifications | 72 Min.   | 72         |

Enclosure (F)



WFO 45-1544

ANSWER TO PRESS QUERY ISSUED ON MARCH 13, 1947

\*The proposal that the United States advance a substantial sum of money to the King of Saudi Arabia in consideration of delivery at a future time of quantities of petroleum fuels was made to the President of the United States in 1941 by James A. Moffett, then in the employ of the American Arabian Oil Company.

\*The proposal was referred by the President to the Secretary of the Navy, who recommended against its acceptance. This recommendation dealt solely with the relatively poor quality of the Arabian products. In several respects, those products did not meet the Navy specifications, which fact would have barred purchase regardless of any other circumstances.

\*Since then, the quality of the products has improved. World conditions and operating areas of the Navy forces have markedly changed. These factors, together with the extremely low price which we are currently paying, make the use of the products highly desirable. Thirty-one per cent of the total fuel purchased by the Navy comes from these sources.

Enclosure (F)\*

\*\*\*\*\*

The names and addresses of the persons involved in this case were obtained from Captain WOOD and other sources and are set out below for future investigation, if requested:

Rear Admiral H. A. STUART  
3502 Kansas Street, N. E., Washington, D. C.

Lt. Commander JOHN J. WALSH  
C/o Standard Oil Company of New Jersey  
26 Broadway, New York City

WFO 46-1644

Lt. D. B. BOHNSCHTATZ  
C/o General Petroleum Corporation  
108 West Second Street  
Los Angeles, California

Rear Admiral A. F. CARTER, USN (Inactive)  
President, Overseas Tankship Corporation  
15 West 44th Street, New York City

Vice Admiral W. J. CARTER, USN (Retired)  
11 Hall Street, Room 2301  
New York, 5, New York

G. E. BARTHELESS  
3201 North Abingdon Street, Arlington, Virginia

JAMES A. MOFFETT  
New York City

In accordance with Bureau instructions no further investigation is being conducted.

- C L O S E D -

SAC, Washington Field

March 17, 1947

Director, FBI

**ARABIAN AMERICAN OIL COMPANY**  
**California Arabian Standard Oil Company**  
**FRAUD AGAINST THE GOVERNMENT**

RECORDED 46-13326-  
843

There is attached herewith a copy of a self-explanatory Departmental memorandum dated March 11, 1947, entitled "Arabian American Oil Company; California Arabian Standard Oil Company".

G. I. R. - 3

Immediately upon the receipt of this letter in your office it is desired that this case be assigned and that it receive continuous attention until it is brought to a logical conclusion. Prior to any active investigation being conducted it is desired that the Agent to whom this case is assigned review the Department's file for the purpose of obtaining additional information in the possession of the Department which has not been furnished to the Bureau.

It is desired that your office definitely determine whether or not the first offer allegedly made by Mr. James A. Moffett was actually made to the Government and to the Navy Department. Documentary evidence of this offer should be obtained. In the event the offer was not made directly to the Navy Department but rather to the Government in general, you should determine whether the Navy Department had knowledge of this offer before entering into the contract with the California Arabian Standard Oil Company. Mr. James A. Moffett should be thoroughly interviewed concerning this matter and any documentary evidence such as letters or memoranda should be obtained from him. In the event your inquiries definitely prove that this offer was not made either to the Government or to the Navy Department, the investigation should be immediately stopped and a closing report reflecting the results of your inquiries should be submitted to the Bureau.

If the offer was made it is desired that a comprehensive investigation be conducted for the purpose of obtaining complete details relative to the following points: Why the offer was not accepted by the Navy; whether the Navy actually did enter into a subsequent contract which required payment by the Navy Department of prices for gasoline, diesel oil and fuel oil approximately one hundred per cent more than the original offer; who actually made the decision to enter into this contract; what representatives in the Government signed the contract; the circumstances surrounding its negotiation and its terms. A copy of the contract should be obtained.

It should be determined whether Mr. McFarregill actually did contact Admiral Andrew J. Carter, the purpose of the contact and the results thereof. It should also be definitely determined whether Admiral Andrew J. Carter contacted his brother, Admiral W. S. Carter, in connection with the awarding of this contract, what representatives contacted them at this time as well as the results of the

SEARCHED  
SERIALIZED  
INDEXED  
FILED  
MAR 18 1947  
FBI - WASHINGTON

MAR 17 1947 P.M.  
FEDERAL BUREAU OF INVESTIGATION  
U.S. DEPARTMENT OF JUSTICE

*[Handwritten signatures and initials]*

COMM 26 134

Washington Field Office

Lieutenant John Walsh and the other unidentified lieutenant who allegedly objected to the high prices being paid by the Navy should be thoroughly interviewed for the purpose of determining whether they actually did make such an objection and how the objection was made, to whom it was made, and who had knowledge of their objection. Documentary evidence of their objection should be obtained if at all possible.

It should also be determined whether the United States Naval Boiler Testing Laboratory in Philadelphia actually did make a test of the fuel oil and the result thereof.

Mr. C. V. Bartholomew should be thoroughly interviewed concerning his knowledge of this matter, particularly the letter he allegedly wrote to the president complaining about the exorbitant profits being realized by the Arabian American Oil Company.

It will be noted from the attached memorandum that this complaint has been brought to the attention of the Senate Committee investigating the National Defense Program. In view of this, together with the belief of the Department that over \$50,000,000 is involved in this matter, it is desired that a complete and comprehensive report be submitted to the Bureau within thirty days of the date of this letter.

All auxiliary offices should be advised of the importance of this investigation and requested to investigate all leads immediately. The Bureau desires to be in possession of complete information concerning this matter before any action is taken by the Senate Committee investigating the National Defense Program.

Five copies of all reports should be submitted. The results of this investigation should not be discussed with the United States Attorney in the absence of further instructions from the Bureau. All individuals and companies contacted by you during the course of this investigation should be advised that this investigation is being made at the request of Assistant Attorney General Edmund G. Condo, Department of Justice.

Mr. Tolson \_\_\_\_\_  
Mr. E. A. Tamm \_\_\_\_\_  
Mr. Clegg \_\_\_\_\_  
Mr. Glavin \_\_\_\_\_  
Mr. Ladd \_\_\_\_\_  
Mr. Nichols \_\_\_\_\_  
Mr. Rosen \_\_\_\_\_  
Mr. Tracy \_\_\_\_\_  
Mr. Carson \_\_\_\_\_  
Mr. Egan \_\_\_\_\_  
Mr. Gurnea \_\_\_\_\_  
Mr. Harbo \_\_\_\_\_  
Mr. Hendon \_\_\_\_\_  
Mr. Jones \_\_\_\_\_  
Mr. Quinn Tamm \_\_\_\_\_  
Mr. Nease \_\_\_\_\_  
Miss Gandy \_\_\_\_\_

# Office Memorandum • UNITED STATES GOVERNMENT

TO : The Director

DATE: March 14, 1942

FROM : D. M. [Handwritten initials]

SUBJECT: ARABIAN AMERICAN OIL COMPANY  
California Arabian Standard Oil Company  
FRAUD AGAINST THE GOVERNMENT

(Handwritten circled 'W')

|                |  |
|----------------|--|
| Mr. Tolson     |  |
| Mr. E. A. Tamm |  |
| Mr. Clegg      |  |
| Mr. Glavin     |  |
| Mr. Ladd       |  |
| Mr. Nichols    |  |
| Mr. Rosen      |  |
| Mr. Tracy      |  |
| Mr. Carson     |  |
| Mr. Egan       |  |
| Mr. Gurnea     |  |
| Mr. Harbo      |  |
| Mr. Hendon     |  |
| Mr. Pennington |  |
| Mr. Quinn Tamm |  |
| Mr. Nease      |  |
| Miss Gandy     |  |

PURPOSE:

The purpose of this memorandum is to advise you that the Bureau is in receipt of a request from the Department to investigate possible fraudulent activities on the part of unknown Navy personnel in connection with the awarding of a Navy contract with the California Arabian Standard Oil Company to furnish gasoline, diesel oil and fuel oil to the Navy. It is believed that over \$50,000,000 is involved in this matter.

COMPLAINT:

According to the information received from the Department, the California Arabian Standard Oil Company, now known as the Arabian American Oil Company, in 1941 submitted an offer to furnish oil and gasoline to any Government department at certain prices. Subsequently, the Navy entered into contracts with the same company for petroleum products at prices approximately one hundred per cent more than the original offer. After an alleged protest of these high prices by two Navy lieutenants, a Mr. McCarregill, the director of the Arabian American Oil Company, telephoned Admiral Andrew J. Carter, who was either chairman or director of the Army-Navy Petroleum Board in Washington, D. C. Admiral Carter thereupon contacted his brother, Admiral W. S. Carter, who was the executive officer of the Bureau of Supplies and Accounts of the Navy Department. All objections to the higher prices were immediately withdrawn and the contract was signed by the Navy Department.

A former employee of the Arabian American Oil Company and the individual who negotiated these contracts with the Navy, allegedly brought this to the attention of the president and also pointed out that the fuel oil being furnished under the contract had been tested by the United States Naval Boiler Testing Laboratory in Philadelphia and proved unfit for Navy use. Despite this report, the Navy continued to buy the fuel oil and has recently entered into a new contract with the Arabian American Oil Company.

This information has also been brought to the attention of the Senate Committee which is investigating the National Defense Program and they may investigate this matter fully. An investigation of this matter by the Bureau will undoubtedly involve high-ranking Navy and possibly other Government personnel.

RECOMMENDATION:

13326-1  
FBI

There is attached hereto for approval a report from the Washington Field

13326

FEDERAL BUREAU OF INVESTIGATION  
FOI/PA  
DELETED PAGE INFORMATION SHEET  
FOI/PA# 1464977-0

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Page 34 ~ b7D - Per DOJ/ATR;  
Page 35 ~ b7D - Per DOJ/ATR;

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FOI/PA  
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# FEDERAL BUREAU OF INVESTIGATION

Form No. 1

THIS CASE ORIGINATED AT **WASHINGTON, D. C.**

FILE NO. **46-1644**

|   |                                 |   |  |
|---|---------------------------------|---|--|
| <b>REPORT MADE AT</b><br>WASHINGTON, D. C.  | <b>DATE WHEN MADE</b><br>7/3/47 | <b>PERIOD FOR WHICH MADE</b><br>6/28, 30,<br>7/1/47 | <b>REPORT MADE BY</b><br>J. BERNARD COOK (A) JBC:EM      |
| <b>TITLE</b><br>ARABIAN AMERICAN OIL COMPANY<br>CALIFORNIA ARABIAN STANDARD OIL COMPANY |                                 |   | <b>CHARACTER OF CASE</b><br>FRAUD AGAINST THE GOVERNMENT |

**SYNOPSIS OF FACTS:**

Photostatic copies of laboratory reports of United States Naval Boiler and Turbine Laboratory and memoranda to Assistant Secretary of Navy, dated May 22, 1947, obtained and transmitted herewith. Comparative cost data of oil from Persian Gulf and the West Coast, Gulf Coast and Caribbean area set out. C. W. BARNHILL-MESS presently reported residing at St. Petersburg, Florida.

- P -

**REFERENCE:**

Bureau File 46-13326.  
Report of Special Agent J. Bernard Cook (A), dated June 26, 1947, at Washington, D. C.  
Report of Special Agent Anthony J. Splendore (A), dated June 25, 1947, at Philadelphia, Pennsylvania.  
Richmond letter to the Bureau dated June 20, 1947.

**DETAILS:**

AT WASHINGTON, D. C.

Captain CHESTER G. WOOD, Office of the Advocate General, United States Navy Department, turned over to the writer a copy of the report dated September 3, 1946, #3771, and a copy of the report dated June 4, 1947, #213, which reports reflect

|   |  |          |
|---|--|----------|
| <b>COPIES OF THIS REPORT</b>                    | <b>TO THE OFFICE IN THESE SPACES</b>     |          |
| 5 Bureau (Encls.)                               | RECEIVED ROSEN<br>F B I<br>22 JUL 5 1947 | RECORDED |
| 2 Miami (Encls.) AIR MAIL -<br>SPECIAL DELIVERY |  |          |
| 3 Washington Field                              |  |          |

58 AUG 18 1947



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the results of tests made by the United States Boiler and Turbine Laboratory at Philadelphia, Pennsylvania. Two photostatic copies of these reports are being transmitted to the Bureau with copies of this report.

It is to be noted that the results of the tests did not give "brand" approval to the samples obtained from the production of the Ras Faura Plant of the Arabian American Oil Company. Captain WOOD stated that "brand" approval was usually given only to those products which met the highest Naval specifications. However, the fact that these products did not have the so-called "brand" approval did not mean that they could not be used but only that they did not meet the highest specifications set by the Navy.

Captain WOOD stated that he would obtain copies of the reports reflecting the results of any laboratory test made by the Experimental Laboratory, Annapolis, Maryland, inasmuch as he believed that his office could obtain these laboratory reports much quicker. He stated it was the policy of the Navy Department to channel such requests through his office and that if direct contact was made with the Experimental Laboratory by Agents of this office, they in turn would have to send the laboratory report to Washington to be turned over to Agents of this office by Captain WOOD. Captain WOOD stated he would immediately notify this office when such laboratory reports were received by him.

Captain WOOD stated that it was a rumor that C. W. BARTHELMESS, while employed by the Washington office of the Arabian American Oil Company, heard that the SACONY VACUUM COMPANY and the STANDARD OIL COMPANY of New Jersey were contemplating purchasing a portion of the Arabian American Oil Company. Captain WOOD stated that the rumor reflected that BARTHELMESS wrote letters to the Board of Directors of the SACONY VACUUM COMPANY and the STANDARD OIL COMPANY of New Jersey, offering his services in the coming negotiations for the purchase of a portion of the Arabian American Oil Company. The Board of Directors of these two companies thereupon forwarded these letters from BARTHELMESS to the officials of the ARABIAN AMERICAN OIL COMPANY. Captain WOOD stated that immediately upon receipt of these letters the ARABIAN AMERICAN OIL COMPANY dismissed BARTHELMESS from their employ.

Captain WOOD stated he could, of course, furnish no verification of this and stated it was strictly a rumor among oil men in the

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United States but he has subsequently heard that BARTHELMUSS is having considerable difficulty in finding a connection with another oil company. He stated that BARTHELMUSS has followed oil all his life and it appears that this is the only thing that he knows.

Captain WOOD stated that he had prepared a memorandum for the Assistant Secretary of the Navy, date May 22, 1947, and also had prepared comparative costs by Navy Department employees, which costs showed the cost of oil obtained from the Persian Gulf area, during the period of the contracts with the Arabian American Oil Company, as compared with the cost of oil of the same type, during the same period, from the Caribbean area, the Gulf Coast area and the West Coast area. He stated he had turned over this memorandum to the Assistant Secretary of the Navy and this cost data to Mr. WILLIAM JORDAN, Attorney in the Claims Division of the Department of Justice.

Captain WOOD stated that it was undeniably true that the oil obtained from the ARABIAN AMERICAN OIL COMPANY was not of the finest quality. However, he stated that it was usable and that during the period of the contract with the ARABIAN AMERICAN OIL COMPANY, oil was very short in the United States and the Navy Department was forced to obtain this oil elsewhere. He stated that in 1941 when the original contract was offered to the United States by the ARABIAN AMERICAN OIL COMPANY, it was his understanding that the oil sold to the Navy under this original contract was a residue after the distillation of the gasoline, kerosene and other by-products. The oil that the Navy now obtains from the ARABIAN AMERICAN OIL COMPANY is not the residue as originally offered but a higher grade, containing approximately 60% of residue and the remaining 40% is what would normally be taken off in by-products. As a result the sulphur content of this oil purchased by the Navy is not as high as that originally to be furnished under the original contract.

Mr. WILLIAM JORDAN, Attorney in the Claims Division, Department of Justice, turned over to this office a copy of the memorandum for the Assistant Secretary of the Navy, dated May 22, 1947, from CHESTER C. WOOD, Captain, Judge Advocate General's Office, Navy Department, Washington, D. C. This memorandum contains what is purported to be a complete history of the ARABIAN AMERICAN OIL case. Two photostatic copies of this memorandum are being transmitted to the Bureau with copies of this report.

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Mr. JORDAN turned over to the writer the comparative cost figures prepared by the Navy Department reflecting the comparative cost of oil obtained from the Persian Gulf area, the Gulf Coast area, the Caribbean area and the West Coast area. He stated that this comparative cost figure was based on the time of the contracts with the ARABIAN AMERICAN OIL COMPANY and for the amount of oil obtained by the Navy Department from the ARABIAN AMERICAN OIL COMPANY.

These comparative cost sheets are as follows:

Mr. JORDAN stated he had been informed by the Navy Department that the average unit price, as set forth on these cost sheets, was the weighted unit price over the period of the contract. The transportation rate was estimated but was as near as possible to the actual rate. He stated that the actual rate could not be determined due to the fact that so many unforeseen factors enter into transportation costs. It is to be noted that in the parentheses, next to the area where delivered, the heading "Product" is a percentage figure. In the sheet showing the cost of oil purchased from the Persian Gulf area these figures represent the amount of oil actually shipped to each of these areas. In the figures showing the cost from other areas, these percentage figures represent the amount of oil that would have been shipped to that area if oil had not been available from the Persian Gulf area. In other words, from the Persian Gulf area during the period of the contract 85% of all the fuel oil-special was transported to the Western Pacific from the Persian Gulf. The total delivered cost of this fuel-special delivered to the Western Pacific amounted to \$47,441,089.64. This same oil delivered from the United States Gulf Coast to the Western Pacific would involve a total delivered cost, according to these comparative cost sheets, of \$74,582,963.98 and is based on the same amount of oil as was actually shipped from the ARABIAN AMERICAN OIL fields to the Western Pacific.

Referenced letter to the Bureau from the Richmond Office reflects that Mr. C. W. BARTHELMESS had moved from 1301 North Abingdon Street, Arlington, Virginia, in March of 1947, leaving a forwarding address of General Delivery, St. Petersburg, Florida.

In connection with the present whereabouts of Mr. BARTHELMESS, a telephone call was made to the ARABIAN AMERICAN OIL COMPANY, Washington, D. C., inquiring as to the present whereabouts of Mr. BARTHELMESS. Information was received that Mr. BARTHELMESS was no longer connected with the ARABIAN AMERICAN OIL COMPANY and the last word that that office had of his address was that he was located somewhere in Florida.

The Miami Office is being requested to locate and interview Mr. C. W. BARTHELMESS in accordance with the original request made by the Bureau.

It is to be noted that the original Bureau instructions were that the investigation in this case must be completed and submitted to the Bureau and the Washington Field Office by June 26, 1947. Therefore,

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an immediate and expeditious investigation must be made by offices receiving copies of this report.

**ENCLOSURES - Bureau**

- 2 copies of the memorandum to the Assistant Secretary of the Navy from CHESTER C. WOOD, dated May 22, 1947.
- 2 copies of Report #P-13 in re "Navy Grade Special Fuel Oils Submitted for Brand Approval by the Arabian American Oil Company". This report was made by the United States Naval Boiler and Turbine Laboratory at Philadelphia, Pennsylvania.
- 2 copies of Report #3771, dated September 3, 1946, prepared by the United States Naval Boiler and Turbine Laboratory, Philadelphia, Pennsylvania, on the Navy grade special fuel oils submitted for "brand" approval by the Arabian American Oil Company.

- Miami

- 1 copy of the report of Special Agent Merrill W. Drennan, dated April 2, 1947, at Washington, D. C.
- 1 copy of Contract #M-SSK12927, dated September 13, 1945, between the Arabian American Oil Company and the United States Navy Department.
- 1 copy of the report of Special Agent Merrill W. Drennan, dated June 20, 1947, at Washington, D. C.

- P E N D I N G -

WFO 46-1644

UNDEVELOPED LEADS

MIAMI DIVISION:

AT ST. PETERSBURG, FLORIDA

Will locate and interview C. W. BARTHELMUSS whose last address is care of General Delivery, St. Petersburg, Florida, concerning the circumstances surrounding the awarding of contracts to the Arabian American Oil Company by the United States Navy. It is to be noted that BARTHELMUSS represented the Arabian American Oil Company in negotiations for contract N-55X-12927 and subsequent renewals of that contract.

Will obtain from BARTHELMUSS all information pertaining to the excessive profits allegedly being made by the Arabian American Oil Company on the Navy contracts and any information which he may have concerning irregularities on the part of company officials.

WASHINGTON FIELD DIVISION:

AT WASHINGTON, D. C.

Will obtain the copies of the Laboratory report submitted by the Experimental Station, Annapolis, Maryland, regarding the samples of the Arabian American Oil Company products tested at that Station from Captain CHESTER WOOD of the Office of the Judge Advocate General, United States Navy.

Office Memorandum • UNITED STATES GOVERNMENT

TO : The Director

DATE: June 17, 1947

FROM : Mr. Rosen

SUBJECT: ARABIAN AMERICAN OIL COMPANY  
CALIFORNIA ARABIAN STANDARD OIL COMPANY  
FRAUD AGAINST THE GOVERNMENT

*[Handwritten signatures and initials, including "J. G. ..."]*

PURPOSE

The purpose of this memorandum is to advise you of the complaint received from the Department, the investigation requested, the investigation performed, and the present status of this matter.

ORIGIN

The Department by memorandum dated March 11, 1947, advised that in April of 1941 the Arabian American Oil Company, then known as the California Arabian Standard Oil Company, submitted an offer through one James A. Moffett to supply petroleum products for the next five years to any Government department at the following prices:

- Gasoline - 3 1/4¢ a gallon
- Diesel oil - 75¢ a barrel
- Fuel oil - 40¢ a barrel.

Subsequently the Navy entered into contracts with the same company for petroleum products at the following prices:

- Gasoline - approximately 6¢ a gallon
- Diesel oil - \$1.68 a barrel 1946 price
- Fuel oil - \$1.05 to \$1.17 a barrel 1946 price

All prices f.o.b. the refinery in the Persian Gulf.

It was estimated that the Navy has paid more than \$50,000,000 to the Arabian American Oil Company under this contract over the original offer submitted by Mr. Moffett.

When the higher offer was notified, two young Navy lieutenants objected strongly on the ground that the price was too high. Thereupon a telephone call was made by a Mr. McGarrigill, a director of Arabian American Oil, to Admiral Andrew J. Carter of the Army-Navy Petroleum Board in Washington, D. C. Admiral Carter thereupon contacted his brother, Admiral F. S. Carter, the Executive Officer of the Bureau of Supplies and Accounts of the Navy Department. All objections to the higher prices were immediately withdrawn and the contract entered into. Admiral Andrew Carter has since retired from the Navy and is now President of the Overseas Tank Ship Corporation, a subsidiary of Standard Oil of California. Other members of the Army-Navy Petroleum Board who have obtained positions with the

The Director

Standard Oil of California are Colonel Cavanaugh and Lieutenant Commander Wellman.

According to the Department, on February 25, 1947, a Mr. C. V. Bartholmezz, formerly with the Arabian American Oil Company, who negotiated these contracts with the Navy, wrote a letter to the President complaining about the exorbitant profits that Arabian American Oil was making on its contracts with the Navy. He also stated that the fuel oil which the Navy was purchasing, after test by the U. S. Naval Boiler Testing Laboratory in Philadelphia proved it to be unfit for use, was continued to be purchased by the Navy.

The Department advised that the above does not in itself establish a violation of any criminal statute, but it does indicate the possibility of such a violation. No detailed request for investigation was made; however, the Department requested that an investigation be made into this complaint. The above information was brought to your attention by memorandum dated March 14 last.

INVESTIGATION REQUESTED BY THE FIELD

On March 17 last the Washington Field Office was directed by letter to determine the following:

1. Whether the alleged offer in 1941 by Mr. James A. Moffett was actually made to the Government and specifically to the Navy Department.
2. If the offer was made it was requested that a comprehensive investigation be conducted for the purpose of determining the following: Why the offer was not accepted by the Navy; whether the Navy actually did enter into a subsequent agreement which required payment by the Navy of prices approximately 100% higher than the original offer; who actually made the decision to enter into this contract; what representatives in the Government signed the contract; and the circumstances surrounding its terms and its negotiation.
3. It was also requested that it be determined whether Mr. McCarregill did contact Admiral Andrew J. Carter as mentioned above and whether the latter contacted his brother, Admiral W. S. Carter, in connection with the awarding of this contract.
4. The two Naval Lieutenants who allegedly objected to the high prices should also be interviewed.
5. The results of the tests made by the U. S. Naval Boiler Testing Laboratory of Philadelphia.
6. That Mr. C. V. Bartholmezz be interviewed relative to his knowledge concerning this matter.



The Director

### RESULTS OF INVESTIGATION

The substance of a report by the Washington Field Office dated April 2, 1947, advises that in April of 1941 the California Arabian Standard Oil Company, then known as the Arabian American Oil Company, offered to furnish to the United States Government \$6,000,000 worth of petroleum products annually f.o.b. at the Persian Gulf. It appears that one of the main reasons why this offer was made was because King Ibn Saud of Saudi Arabia, urgently needed funds as a result of the emergency which arose because of World War II. Although it is not definitely stated in Mr. J. A. Moffett's letter to the President, in which the offer was made, it appears that one of the primary reasons for contacting the President in this regard was the fear on the part of the oil company that unless funds were made available immediately to King Ibn Saud, the entire Arabian world may have possibly been thrown into a chaos resulting in the loss of the oil rights in Saudi Arabia held by the oil company. Their offer was referred by the President to the Secretary of the Navy who advised that this oil not be used by the Navy because of its high sulphur content. Other reasons given by the Navy Department which were not made a matter of record at the time the offer was refused, indicate that at the time the offer was made there was an over-production of oil in the United States. The Mediterranean was closed to American shipping, resulting in extremely high transportation costs and the fact that the oil, if obtained, could not be mixed with other oil being used by the Navy, thereby greatly increasing the logistic problem.

The report also contains the reasons given by the Navy Department as to why it purchased petroleum products from this same source a few years later at much higher prices. The reasons in general state that this oil is suitable for general Naval use because it is not mixed with other Navy fuel but is handled and stored separately. In view of the fact that this particular fuel is supplied only to the Western Pacific areas, no operating difficulties are encountered and its use has solved the logistic problem of hauling fuel across the Pacific Ocean. The Navy further advises that this source is very convenient for supplying oil to the American Fleet operating in the Asiatic area and that its use prevents a depletion of American oil sources. The Navy Department also advised that were oil procured for use of Naval forces west of Pearl Harbor purchased at the nearest and lowest priced American source, the cost at that source would be approximately 42% greater than the price paid the Arabian American Oil Company. In addition, the cost of transporting this oil would be considerably greater than the cost of transporting the oil from the Persian Gulf to the American forces operating in the Western Pacific.

In view of the results of the investigation set forth above no investigation relative to the circumstances surrounding the negotiations and awarding of the contract with the Navy was made because of the explanations given by the Navy Department in referring

The Director

the offer made in 1941 and because there is no reason to believe that any fraud was practiced on the Government as a result of the contract entered into in 1945. The questionable item in this regard is the higher prices paid in 1945. It is not believed that this in itself is an indication of fraud and any investigation of this contract merely for this reason would be a fishing expedition.

Two copies of the investigative report were sent to Mr. Theron L. Caudle by memorandum dated April 11, 1947. One copy of this report was also sent to Mr. John F. Sonnett, Assistant Attorney General, in accordance with a telephonic request made of Mr. E. A. Tamm. This memorandum stated that in view of the results of the investigation set forth in this report, no investigation would be conducted relative to the circumstances surrounding the negotiations and awarding of the contract subsequently entered into by Arabian American Oil and the Navy Department in the absence of a specific request by the Department.

#### DEPARTMENTAL REQUEST

Under date of April 28 last the Criminal Division of the Department requested the Bureau to proceed with a final and complete investigation of this entire matter. No specific or detailed instructions were given, nor did the memorandum contain any indication as to what the Department deemed fraudulent. By letter dated May 1, 1947, these instructions were transmitted to the Washington Field Office with a request that all of the investigation requested in Bureau letter dated March 17, 1947, mentioned above, be completed. A thirty day deadline was set.

#### PRESENT STATUS OF INVESTIGATION

In view of the failure of the Washington Field Office to submit a report within the deadline a follow-up letter was sent under date of June 16, 1947, calling their attention to the delinquency of this case and requesting that the Bureau be advised as to whether this case is receiving investigative attention and when a comprehensive report would be received at the Bureau. ||

You will be advised of the results of the investigation into this matter as soon as they are received at the Bureau.

#### CONGRESSIONAL INTEREST IN THIS MATTER

The Senate Committee investigating the National Defense Program has conducted some inquiries into this matter. Former Senator Burton K. Wheeler, Democrat of Montana, has been appointed a Special Counsel and is presently conducting sufficient investigation for the purpose of making a final report to the Committee. It is not expected that any further public hearings on this matter will be held until after former Senator Wheeler's report is submitted.

# FEDERAL BUREAU OF INVESTIGATION

Form No. 1  
THIS CASE ORIGINATED AT **WASHINGTON, D. C.**

FILE NO. **46-1644**

|  |                                  |  |  |
|--|----------------------------------|--|--|
| REPORT MADE AT<br><b>WASHINGTON, D. C.</b>   | DATE WHEN MADE<br><b>6-26-47</b> | PERIOD FOR WHICH MADE<br><b>6-21 to 25-47</b>            | REPORT MADE BY<br><b>J. BERNARD COOK (A) JBC:GMS</b> |
| TITLE<br><b>ARABIAN AMERICAN OIL COMPANY<br/>CALIFORNIA ARABIAN STANDARD OIL COMPANY</b> |                                  | CHARACTER OF CASE<br><b>FRAUD AGAINST THE GOVERNMENT</b> |  |

**SYNOPSIS OF FACTS:**

ARABIAN AMERICAN OIL COMPANY incorporated in Delaware November 8, 1933, as CALIFORNIA ARABIAN STANDARD OIL COMPANY. Name changed to ARABIAN AMERICAN OIL COMPANY January 31, 1944. ARABIAN AMERICAN OIL COMPANY has concessions from the Kingdom of Saudi Arabia until 1999 and is now owned by the STANDARD OIL COMPANY of California; STANDARD OIL COMPANY of New Jersey, the TEXAS COMPANY and the SOCONY-VACUUM COMPANY. Balance sheet as of May 31, 1946, and Profit and Loss Statement for the month of May, 1946, of the ARABIAN AMERICAN OIL COMPANY set out. Production cost of crude oil of the ARABIAN AMERICAN OIL COMPANY for the month of May, 1946, amounted to \$.3386 per barrel. Sale price to Government varied from \$1.05 to \$1.66 per barrel, depending on the grade. Bureau of Federal Supplies, Maritime Commission and Department of Interior could furnish no information of value. Contracts between United States Navy and the GULF OIL PRODUCTS COMPANY and the ARABIAN AMERICAN OIL COMPANY analyzed and set out.

*Handwritten notes:*  
2  
7-2-47

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**REFERENCE:**

Bureau letters dated June 16 and June 23, 1947  
Report of Special Agent (A) MERRILL W. BRENNAN  
dated June 20, 1947, at Washington, D. C.

|  |  |
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| <p><i>Handwritten:</i> 46-135-177</p> <p>COPIES OF THIS REPORT</p> <p>5 - Bureau RECEIVED</p> <p>5 - Washington Field</p> <p><i>Handwritten:</i> JUN 28 1947</p> | <p style="text-align: center; font-size: small;">DO NOT WRITE IN THESE SPACES</p> <p style="text-align: right;">RECORDED</p> <p style="text-align: right;">INDEXED</p> |
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WFO 46-1644

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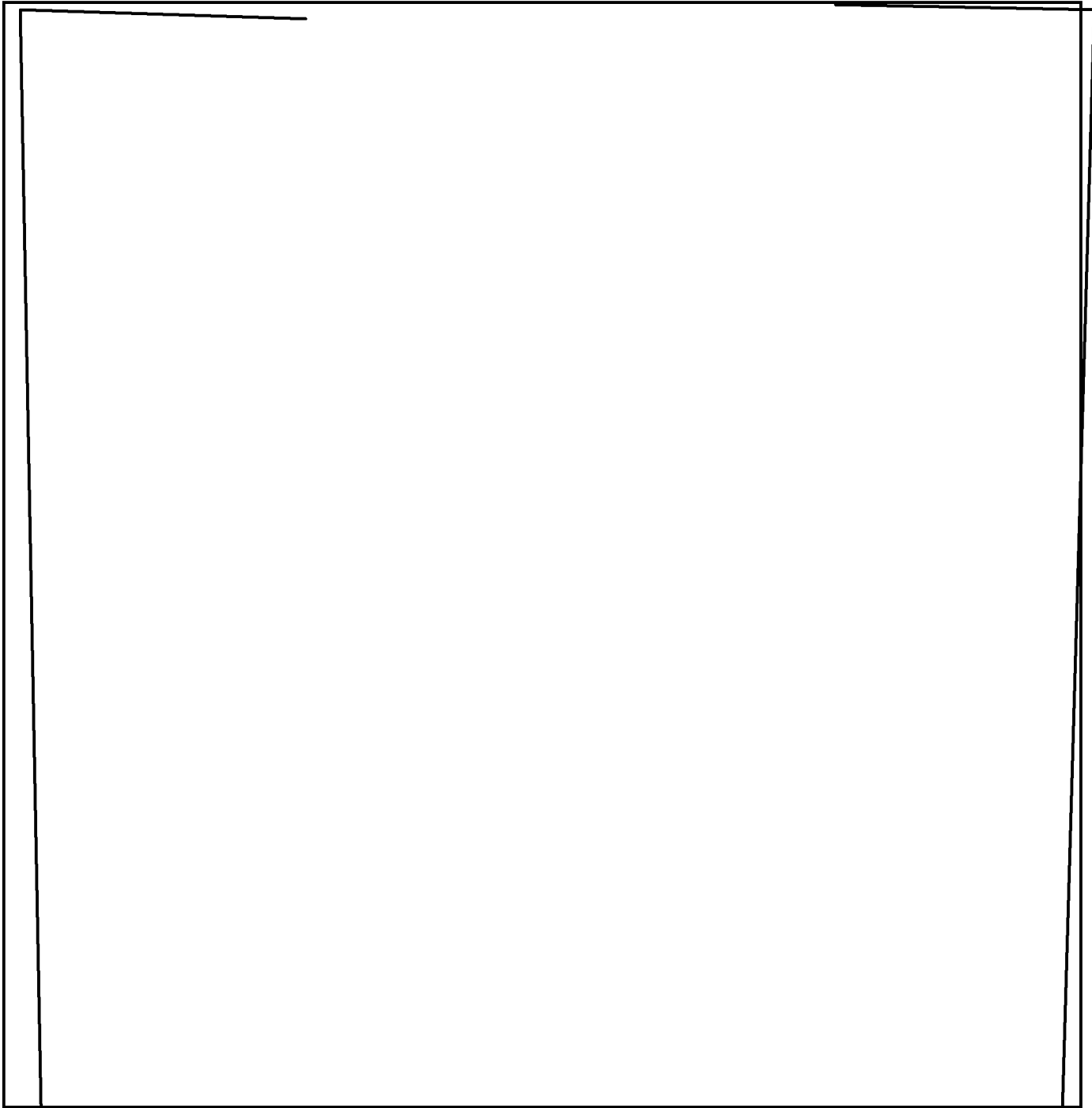
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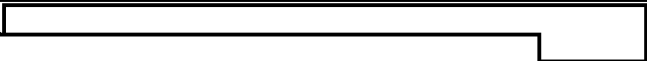
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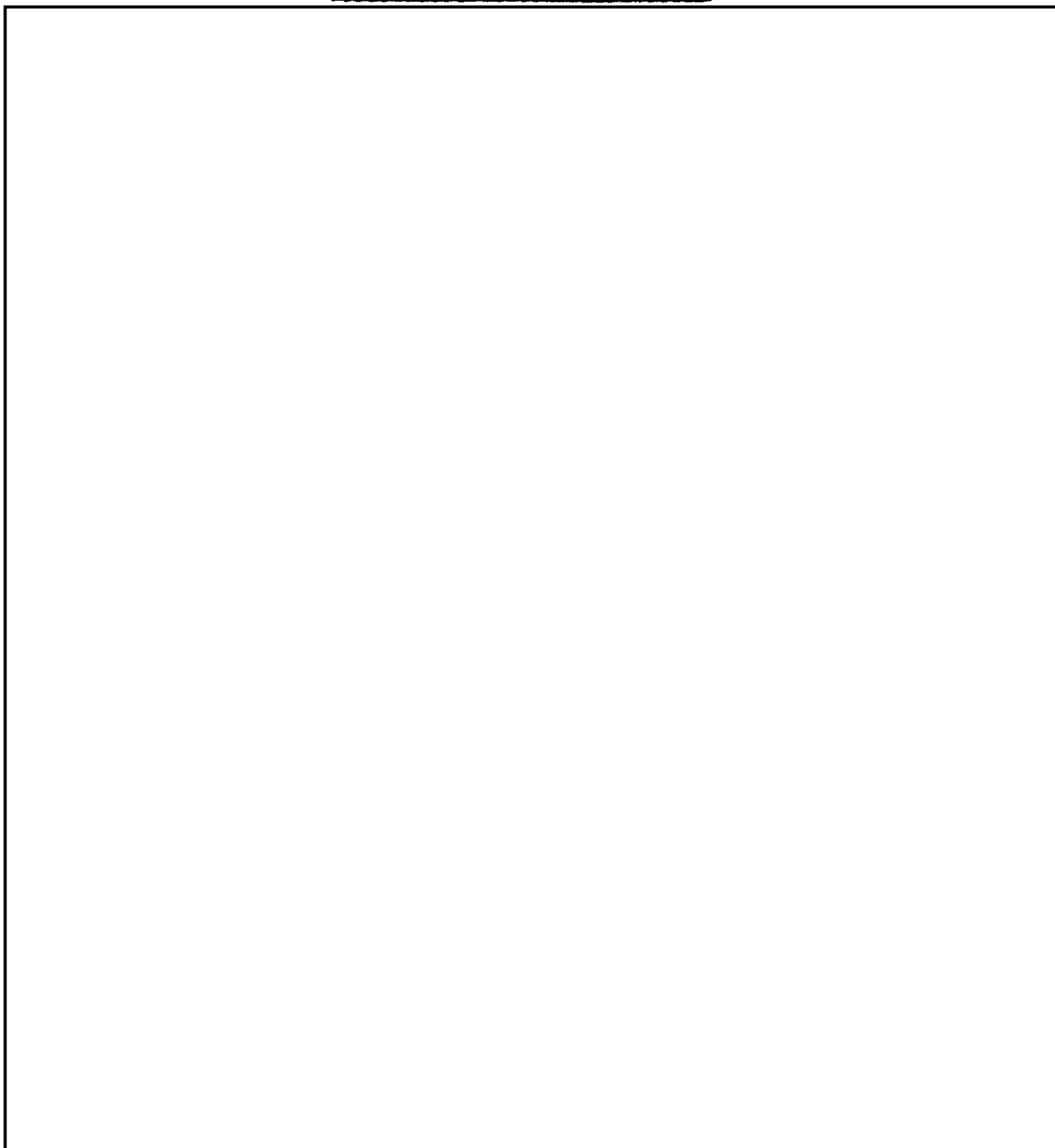
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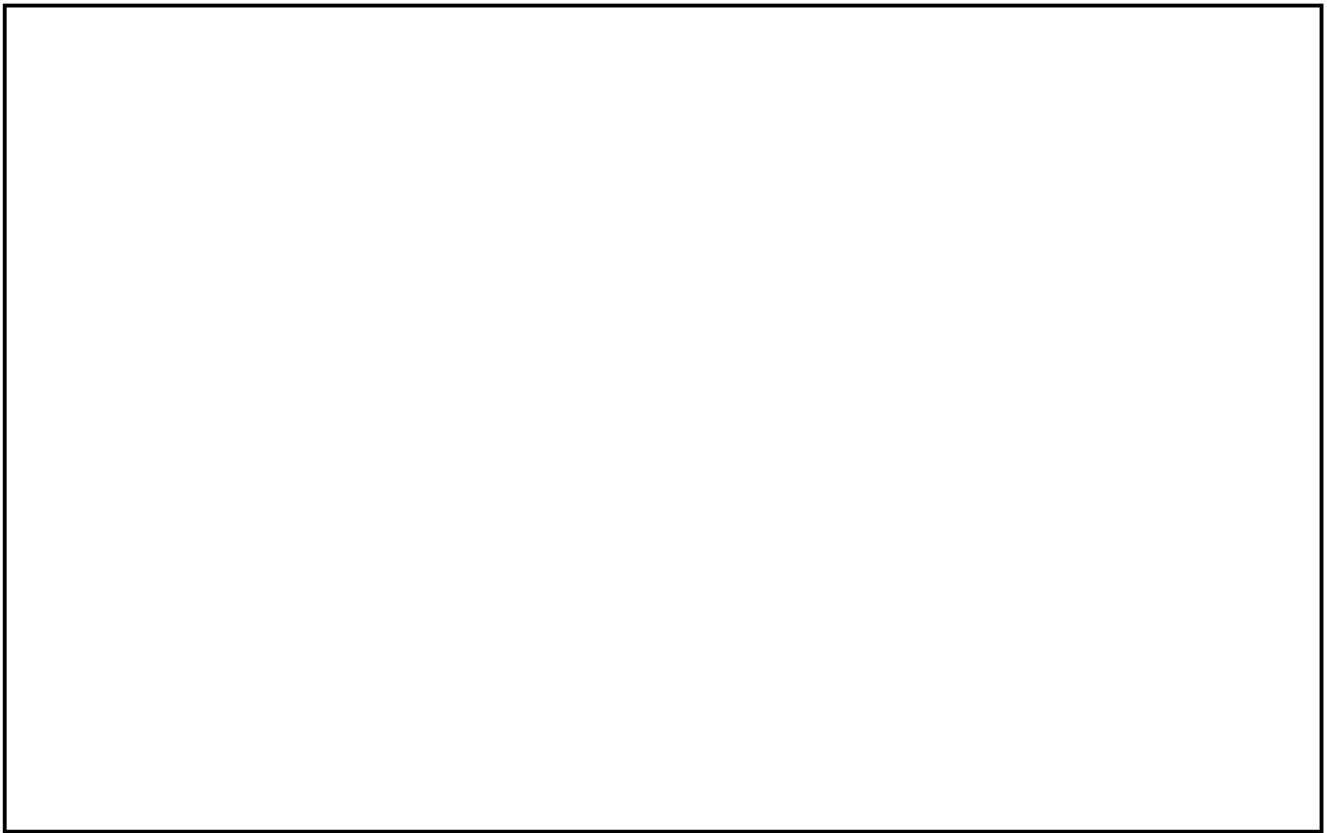
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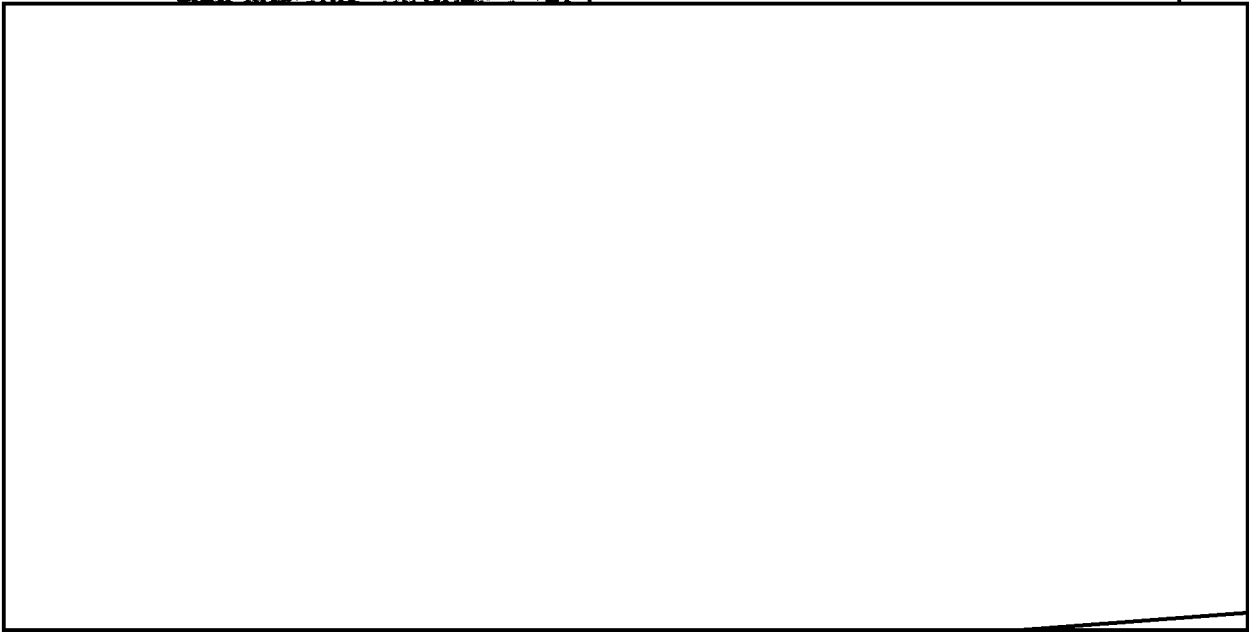
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Confidential Informant [redacted]



Confidential Informant T-1 stated that [REDACTED]

[REDACTED]

Mr. CHARLES ROACH, Administrative Assistant to the Director, Bureau of Federal Supplies stated that his files or the files of the predecessor agency, the Treasury Procurement Division, contained no information concerning the purchase of any oil from the Arabian oil fields by this agency.

Mr. DANIEL DILLON, Director, Traffic Division, Maritime Commission, Washington, D. C., stated that the records of the Maritime Commission contained no information concerning the contracting parties insofar as the purchase of oil or oil products is concerned. The records of the Maritime Commission reflect only the shipping data, namely the point of loading, the point of destination and the chartering company. Mr. DILLON stated that as far as he could recall the oil from the Persian Gulf ports was shipped almost exclusively under the Navy orders and it was his belief that all of the oil was shipped out under Navy instructions. He stated that he was speaking here only of oil purchased by the United States Government.

Mr. ROBERT E. FRIEDMAN, Assistant Director, Oil and Gas Division, Department of Interior, stated that his office had no information concerning the purchase of oil or oil products from the Persian Gulf area.

Mr. WILLIAM JORDAN, Attorney in the Claims Division, room 33A1 Department of Justice Building, furnished to the writer copies of all the Navy contracts for the purchase of oil from the Persian Gulf area, which he had in his possession. These contracts consisted of contracts between the United States Navy and the following companies: The CAHILL OIL PRODUCTS COMPANY, the CALIFORNIA TEXAS OIL COMPANY and the ARABIAN AMERICAN OIL COMPANY. The information contained in these contracts was set out in schedule form, particularly as to the type, amount and price per unit of each product. This schedule of contracts with the United States Navy for the purchase of oil in the Arabian oil fields is as follows:



It is to be noted that the amounts in barrels of oil products set forth in the preceding schedule are the amounts as set out in the original contracts with the United States Navy, with such amendments as might have been made during the life of said contract, however, the amount called for in said contracts actually might vary from that actually purchased by the United States Navy from these companies. The above schedule, however, sets forth a price per unit of the various grades of oil which might serve as a basis for comparison.

It is also to be noted that the contracts as obtained from Mr. WILLIAM JOEDAN of the Claims Division of the Department of Justice are not the original contracts, but are file copies which, according to Mr. JOEDAN, he obtained from the Bureau of Supplies and Accounts, Navy Department, consequently the name of the Navy negotiators or the contractor's representative does not appear on these contracts. A bound volume containing copies of these contracts is being transmitted to the Bureau with copies of this report.

The total amount of oil products contracted for by the three companies with the United States Navy is as follows:

|                              |                 |
|------------------------------|-----------------|
| CALTEX OIL PRODUCTS COMPANY  | \$21,205,500.00 |
| CALIFORNIA TEXAS OIL COMPANY | 29,933,675.00   |
| ARABIAN AMERICAN OIL COMPANY | 36,315,000.00   |

No further investigation is being conducted by this office unless advised to the contrary by the Bureau.

ENCLOSURE

TO THE BUREAU

One bound volume of Navy Contracts.

- PENDING -

WFO 46-1944

**CONFIDENTIAL INFORMANT**

Confidential Informant T-1



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# FEDERAL BUREAU OF INVESTIGATION

WASHINGTON, D. C.

FILE NO. 46-1908

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| REPORT MADE AT<br>WASHINGTON, D. C.  | DATE WHEN MADE<br>1/7/48 | PERIOD FOR WHICH MADE<br>12/4-8, 10, 12-16, 18, 19/47 | REPORT MADE BY<br>JOHN B. COOK (A) |
| TITLE<br>UNITED STATES GOVERNMENT CONTRACTS FOR PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS |                          | CHARACTER OF CASE<br>WAR FRAUD CLAIM CIVIL SUIT       |                                    |

The Arabian-American Oil Company and California-Texas Oil Company sold to U. S. Navy oil products in the amount of \$5,150,000.54 under 14 contracts. Government alleges excessive price was charged for said oil products. Original claim of excessive price made by JAMES A. HOFFERT who stated oil was originally offered to Navy in 1941 at price of 40¢ a barrel but this offer was rejected. Same oil later sold to Navy at 85¢ to \$1.05 per barrel. Arabian-American Oil Company and California-Texas Oil Company claimed the oil sold to Navy was sold at same price or cheaper than prevailing market price. The analysis of contracts involved, copies of tests and pertinent correspondence set out.

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REFERENCE: Bureau letter dated November 25, 1947  
Bureau file No. 46-17326

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DETAILS:

AT WASHINGTON, D. C.I. INTRODUCTION

This investigation is predicated upon Bureau letter of reference which enclosed two memorandums from ROBERT A. HERRICK, Acting Assistant Attorney General, which memorandums were dated October 13, 1947, and November 13, 1947. These memorandums are as follows:

"It has been requested that an investigation be made by this Department with reference to purchase by the United States Navy of petroleum products from the California Texas Oil Corporation and the Arabian American Oil Company. In connection with such investigation, it is asked that the following described matters be reviewed and analyzed.

"1. It is requested that there be secured from the U.S. Navy the originals, or certified photostatic copies thereof, of the following contracts for the purchase of fuel entered into between the United States Navy and California Texas Oil Corporation (Caltex) and between the United States Navy and Arabian American Oil Company (Aramco):

- "(1) Contract #1s-6166, with Caltex, dated May 25, 1942
- (2) Contract #1s-31315, with Caltex, dated November 1, 1942
- (3) Contract #1s-34155, with Caltex, dated June 25, 1943
- (4) Contract #1s-55004, with Caltex, dated March 2, 1945
- (5) Contract #5s-LL-10985, with Aramco, dated July 9, 1945
- (6) Contract #5s-12927, with Aramco, dated September 13, 1945
- (7) Contract #5s-14539, with Caltex, dated September 19, 1945
- (8) Contract #5s-12929, with Aramco, dated November 20, 1945
- (9) Contract #6s-151, with Caltex, dated March 20, 1946
- (10) Contract #6s-2375, with Aramco, dated June 14, 1946
- (11) Contract #6s-3956, with Aramco, dated October 14, 1946
- (12) Contract #6s-4207, with Aramco, dated November 8, 1946
- (13) Contract #6s-4181, with Caltex, dated November 22, 1946
- (14) Contract #6s-4356, with Aramco, dated December 16, 1946

"2. It is requested that records of the United States Navy be reviewed to determine if the Navy has entered into contracts with parent or subsidiary organizations of California Texas Oil Corporation (Caltex) and Arabian American Oil Company (Aramco) for the purchase of fuel from Saudi Arabia or the Island of Bahrain.

"3. It is requested that the following reports, memoranda and analyses, bearing upon the quality of oil produced and refined in Saudi Arabia and the Island of Bahrain, be secured:

"(a) Memorandum of H. A. STUART, Rear Admiral, U.S.N., Director, Naval Petroleum Reserves, to the Secretary of the Navy, dated 17 May 1941, discussing the possibility of the Navy using oil from Saudi Arabia.

"(b) Statement of ROBERT E. FEIKENS, Department of the Interior, made during or prior to 1947 that no difficulty has been experienced by any Navy vessel arising out of the use of Arabian fuel oil.

"(c) Enclosure 'E' of memorandum of C. C. WOOD report to the Special Senate Committee to Investigate the National Defense Program.

"(d) Statement of LLOYD HAMILTON, General Manager of Calarabian, on or about August 7, 1941, that the British Navy was using Saudi Arabian oil satisfactorily.

"(e) Details concerning assignment of and subsequent report by two Navy petroleum technologists ordered to the Persian Gulf August 6, 1942, to investigate that area's ability to produce fuel suitable for U.S. Navy use.

"(f) Schedule of results of tests of Saudi Arabian oil samples made by Calarabian, attached to memorandum, dated January 8, 1943, from Standard Oil Company of California to Rear Admiral H. A. STUART, Director, Naval Petroleum Reserves.

"(g) Report of Inspector of Naval Materiel, Bahrain Island, to Naval Boiler Testing Laboratory, Philadelphia, Pennsylvania, dated May 13, 1943.

"(h) Reports of Special Committee established under Byrd-Paul agreement with British in 1943, concerning tests made of Bahrain and Aramco oil.

"(i) Report of H. H. FOX, JR., concerning test of oil samples from Saudi Arabia and Bahrain Islands during 1944 and 1945 under Navy sponsorship.

"(j) Report 3771 (Code 330; att. Code 331) issued by United States Navy Boiler Testing Laboratory to Bureau of Ships September 3, 1946, dealing with certain samples of 'Navy Grade Special Fuel Oils' submitted for brand approval by Aramco.

"(k) Results of all tests made by U.S. Navy of petroleum products submitted by Calarabian and Aramco under fourteen contracts above set forth.



"4. It is requested that an investigation be made of the extent, if any, in which the following named persons participated, while serving as United States Government officials, or in the Armed Forces, in securing contracts for the sale of Saudi Arabian and Bahrain petroleum products to the U.S. Navy by Caltex and Aramco:

"(a) ANDREW F. CARTER, Rear Admiral, U.S.N.R., formerly Executive Officer of the Army-Navy Petroleum Board, and now President of Overseas Tank-Ships Corporation.

"(b) W. J. CARTER, Vice Admiral, U.S.N.R. (Ret.), formerly Chief of the Bureau of Ships and Accounts, whose present address is 11 Wall Street, Room 3401, New York 5, New York.

"(c) JAMES TERRY DUCE, formerly Deputy Petroleum Administrator for War and later President of Aramco.

"(d) MAX W. THORNTON, formerly of the State Department and later president of Bahrain Petroleum Company.

"(e) The following named persons, whose military rank, where applicable, at the times involved is set forth:

Commander N. A. HOBECROSS (SC) U.S.N.  
Commander YOUNG (SC) U.S.N.  
Lt. J. J. WALSH (SC) U.S.N.R.  
Lt. D. E. BODENSCHULTZ (SC) U.S.N.R.  
Commander D. J. WENGECOFFUS (SC) U.S.N.  
Commander R. S. FOGLE (SC) U.S.N.R.  
Mr. J. H. COLLINS  
Commander C. G. DEESCHER (SC) U.S.N.

"5. It is requested that there be obtained copies of the 'Red Line Agreement' of 1920, contracted by shareholders of the Iraq Petroleum Company, together with any supplements thereto.

"6. Further request is made that analysis be prepared of the cost of producing crude oil and of refining gasoline, fuel oil, and diesel fuel included in the contracts above set forth.

"7. Prices at which identical petroleum products from this area were sold at the times involved to other consumers by Caltex and Aramco should be secured, as well as prices at which other producers were selling crude and refined products.

"8. Investigation should be made to ascertain the names of U.S. Navy officials who established quality specifications for the purchase of fuel under these fourteen contracts and to determine the basis upon which such specifications were set.

\* \* \* \* \*

Reference is made to your memorandum of October 29, 1947, in which you pointed out that, although the criminal investigation has been completed in the above matter, no final decision has been given to the Bureau by the Criminal Division. Subsequent to receipt of your memorandum, the Claims Division has examined Justice file 144-38-40, 'Arabian American Oil Company; California Arabian Standard Oil Company,' made up of material secured in the investigation for the Criminal Division.

Inasmuch as it is the purpose of the Claims Division to proceed with its inquiry at this time to determine if civil liability exists on the part of oil companies concerned, it is requested that the investigation asked in our memorandum to you of October 13, 1947, be made as rapidly as may be practicable.

Since the submission of our original memorandum, public hearings, extending from October 29 to November 4, 1947, have been conducted by the Senate Committee Investigating the National Defense Program (Brewster Committee) for the purpose of reviewing the purchase of Saudi Arabian petroleum products by the United States Navy from 1942 to the present from Arabian American Oil Company (Arampco) and California Texas Oil Company, Ltd. (Caltex). Based upon matters explored at these hearings, it is requested that your inquiry cover the following additional elements:

"1. Reference paragraph 4 of our original memorandum, please investigate the extent, if any, to which the following persons participated in or affected the consummation of the contracts:

"(a) A. A. MacKILLIE, 313 East 58th Street, New York City, New York, now employed by Shell Oil Company. Mr. MacKILLIE, with the rank of Commander, served from 1942 to 1945 as officer in charge of the Purchase Section of the fuel division of the Bureau of Supplies and Accounts.

"(b) GEORGE FARMHIST and other Government officials with whom Mr. MacKILLIE may have discussed Saudi Arabian Oil prices prior to consummation of Contract #5541-11-10985, with ~~Arampco~~, dated July 9, 1945. These men were employed by the Petroleum Administration for

War, War Production Board, and the Under Secretary of the Navy. Mr. MacKILLIE has testified that their names were MAX JANE, MR. TATE, MR. FITZGERALD, MR. RINEHART and MR. McVICKER.

\*(c) Capt. A. W. BUTTER, United States Navy, who, Mr. MacKILLIE testified, said that the products involved in Contract N5ax-IL-14985, were urgently needed.

\*(d) Adm. H. D. NUBER, United States Navy, who, Mr. MacKILLIE stated, acted to expedite execution of the contract.

\*2. Investigation should be made of the facts incorporated in a letter written October 22, 1947, to the committee by Capt. EDWARD L. WOODYARD, Office of the Judge Advocate General, United States Navy, concerning deliveries by Great Britain to the United States Navy of Persian Gulf oil at 85¢ per barrel in 1945 under reverse lend-lease.

\*3. It is requested that investigation be made of the nature and extent of renegotiation by the Price Adjustment Board of the Reconstruction Finance Corporation of contracts made by Aramco for the sale of petroleum products in 1945.

\*4. The investigation should include an examination of Federal income tax returns filed by Aramco for the period beginning in 1943 and extending to present date. Inquiry should also be made to determine the extent, if any, to which the Bureau of Internal Revenue has reviewed operations of Caltex, a Bahaman corporation, and Bahrain Petroleum Company, a Canadian corporation.

\*5. Facts concerning incorporation of the Caltex Oil Products Company in January, 1947, under the laws of Delaware should be determined. The extent, if any, to which the Bureau of Internal Revenue is investigating the prices at which petroleum products are sold to this corporation by Aramco and Caltex for subsequent resale to the United States Navy should be ascertained.

\*6. The investigation should cover the terms of an agreement made between Anglo-Iranian Oil Company, Ltd., and Bahrain Petroleum Company, concerning wartime operations of refineries of the two organizations. Particular reference is made to an alleged provision of the agreement that if prices quoted by Bahrain should cause Anglo-Iranian to suffer a loss on a cargo Bahrain would make up the loss.

"7.(a) Investigation should be made of the negotiations which preceded signing of Contract Mjpx-LL-10985, described above, particularly with reference to alleged representations by oil company officials that royalty payments had been increased to 42¢ per barrel and that the Saudi Arabian Government was pressing for greater royalties. The investigation should cover the circumstances and events surrounding the execution by Lt. D. E. BOIENSCHATZ of a document described as a justification for that contract.

"(b) The inquiry should cover the date, extent and present status of any disagreement between Abdul Aziz ibn Saud, King of Saudi Arabia, or any other officials of that Government, and oil company representatives with reference to increases in the royalty payments under the Saudi Arabian oil concession held by the corporations involved herein.

"8. Investigation should be made of the submission by Standard Oil Company of California and the Texas Company, or any other parent or subsidiary units of the Saudi Arabian concession holders, of proposals to supply petroleum products to the United States Government at prices other than those set in the contracts. Such proposals include the JAMES A. MOFFETT letter to President ROOSEVELT, dated April 16, 1941; the 'outline of principles' executed on or about January 24, 1944, by Secretary of the Interior HAROLD ICES and oil company representatives, and possibly other offers.

"9. It is further requested that investigation be made of certain phases of a letter written January 26, 1946, by JAMES TERRY DUCE, vice president of Aramco, to another company official. The letter suggested that some thought be given to expenses for 1946 and to the allocation of all possible charges to that year since 'otherwise the company might be embarrassed with people with whom it had contracts should its net be excessively high.' The letter also referred to 'the effects in Washington.' The inquiry should cover the nature and extent of Aramco contracts for 1946 with the view of determining to whom the letter referred as a source of embarrassment. The extent to which expenses were allocated to 1946, rather than to other years, should also be ascertained."

#### III. HISTORY OF CASE

Under date of November 14, 1947, the Honorable OWEN BURNHAM, chairman of the Senate War Investigating Committee, addressed a letter to the Attorney General, bringing to his attention the alleged excessive charges made by the Arabian American Oil Company and the California Texas Oil Company for oil sold to the United States Navy under 14 contracts. This letter is as follows:

November 14, 1947

Honorable Tom Clark  
United States Attorney General  
Washington, D.C.

My dear Mr. Attorney General:

In the course of an investigation of oil purchases by the United States Navy during and immediately following the war the Special Senate Committee Investigating Defense Expenditures developed certain evidence bearing on the production potential and the cost and distribution of oil resources in Arabia controlled by American oil companies and potentially available in this country to assist in meeting our petroleum problem.

The evidence indicated that during the war, coincidentally with very strong representations by certain American oil companies concerned, \$30,000,000 in American lend lease funds were made available to King Ibn Saud of Saudi Arabia and that these contributions were a very material factor in preserving the oil concession which these American oil companies had obtained in Saudi Arabia running for a period of 60 years when these concessions were being threatened with possible cancellation as a result of conditions then prevailing.

The evidence of the oil officials indicates a possible reserve of twenty billion barrels of oil in Arabia under this concession as part of a possible one hundred billion barrel reserve in the Middle East and Persian Gulf area outside of the Soviet Union.

There seems every reason to expect that the coal economy of Europe will gradually be converted to an oil economy as indicated in the so-called Marshall Plan submitted by the European nations which contemplates an immediate increase in petroleum consumption of approximately 250% over 1938.

The evidence before our committee indicated the cost of production of crude oil in these American concessions in the Persian Gulf at 25¢ a barrel in one case including a royalty of 15¢ a barrel to the local ruler and of 40.6¢ in another case including a royalty of 21¢ to the local ruler.

Plans are now under way to step up production to 550,000 barrels a day. In March of this year, coincidentally with the announcement of the Truman Doctrine regarding Greece and Turkey with its necessary implication of the national interests of the United States

being vitally involved in the Middle East area, the Standard Oil Company of New Jersey and the Socony Vacuum Oil Company announced the prospective acquisition of a 40% interest in the Arabian oil reserves entirely controlled heretofore by the Standard Oil Company of California and the Texas Company in equal parts.

The impact of these various developments upon the competitive situation along our Atlantic seaboard in this period of oil shortages, growing ever more serious, seems a matter appropriate for consideration by your office and under the instructions of the committee I am accordingly submitting it for your consideration.

The evidence before our committee indicates that this Arabian oil under American control could be laid down in New York harbor for approximately one-half the current price and might contribute very materially to easing the growing shortage of petroleum in the eastern United States as well as contributing to the relief of the consumers in the matter of price.

While it might be argued that the oil companies concerned are now free to produce and distribute this oil as they see fit in world markets with sole consideration of the interests of their own stockholders it seems clear that these concessions, which on their own figures may represent a value of \$10,000,000,000, were preserved for them to a large extent as a result of the lend lease contribution of \$80,000,000, during the war to stabilize this area and to appease Ibn Saud and are now primarily dependent upon American protection for their continued conservation.

The oil companies concerned make much of the fact that they are at present charging the United States Navy for its essential fuel supplies less than the comparable Gulf of Mexico prices for similar products. There is at present no indication nor assurance as to how long this benevolent attitude will continue.

The committee is at present concerned with the fact that this same oil was earlier offered to our Navy at 40¢ a barrel and was sold to the Japanese prior to Pearl Harbor at 70¢ a barrel and that a price of \$1.05 a barrel was fixed for this oil after the German surrender and three weeks before the termination of the Japanese war under circumstances that indicate considerable pressure to fix the Persian Gulf oil price on a comparable basis with the Gulf of Mexico at a time when our government was in great need. This price of \$1.05 represented an increase of 21¢ a barrel over a price of 84¢ a barrel that had previously been determined by the United States Petroleum Administration for War.

"This same oil was being sold to France for 85¢ a barrel at the very time the United States Navy was being forced to pay \$1.05 a barrel.

"The evidence before our committee indicated that it was expected that in the future this Arabian oil would be used in Europe and the Far East rather than in the United States in order to avoid the cross hauls that otherwise might result from the present exports of 600,000 barrels in oil from the United States to countries outside the Western Hemisphere.

"Whether or not the interest of the United States in the handling of these oil reserves and their possible impact on world peace will receive primary consideration seems open to some doubt in view of the evidence before our committee that the protestations of the company representatives that this operation was an American enterprise paying American taxes had a somewhat hollow ring when it was disclosed that on an investment of \$100,000 one of the subsidiaries, a Canadian corporation had made profits of \$92,186,107.11 in recent years on which no taxes of any character to any government have ever been paid and another subsidiary, a Bahama corporation, on an investment of \$1,000,000 had made profits of \$25,387,673.44 on which similarly no taxes had ever been paid to the United States or any foreign government.

"Under all these circumstances it seemed appropriate to bring this situation to your attention for whatever exploration and action you felt might be warranted under existing law, decisions and decrees with a view to assuring that the interests of the United States and its citizens would receive appropriate protection."

On April 16, 1941, Mr. J. A. HOFFERT addressed a letter to the President of the United States to which letter was attached a memorandum in which oil was offered to the United States Government at approximately 40¢ per barrel. They are set out as follows:

7130 East 43rd Street  
New York City  
April 16, 1941

"My dear Mr. President:

"Referring to the interview which you so kindly gave me on Wednesday, April 9th, and in line with your request, I am attaching hereto a memorandum covering the existing situation in Saudi Arabia. Also a proposal which we hope will be acceptable as a means of providing funds for the Saudi Arabian Government.

"Our representatives have had numerous conferences with the King. His financial situation is desperate. The British Government had advanced him four hundred thousand pounds and he is endeavoring to have this increased to nine hundred thousand pounds. His budget requirement is conservatively estimated at \$10,000,000.

"You referred to the four Danish Tank Steamers which might be utilized to transport finished petroleum products. If the United States Government will advance to the King of Saudi Arabia \$6,000,000 annually for the next five years, we feel confident that we can work out with the King an arrangement whereby he will deliver through us the following quantities of petroleum products, and at the prices mentioned:

|                                  | <u>P.O.B. Ship</u><br><u> Persian Gulf</u> |
|----------------------------------|--|
| 1,800,000 Bbls. of Gasoline at   | 3 1/2 cents                                |
| 2,660,000 Bbls. of Diesel Oil at | 75 cents                                   |
| 3,400,000 Bbls. of Fuel Oil at   | 40 cents                                   |

totalling approximately \$6,000,000 worth of petroleum products annually.

"The King's normal revenue /from Pilgrimage and customs/ has practically disappeared. His expenses have been very materially increased. Not only on account of the war, but due to the drought this past year, so that he has been forced to feed two thousand of his subjects.

"I sincerely trust that some way may be found under existing legislation to provide King Ibn Saud financial assistance, which he so urgently needs in order to maintain his Government in a stable condition. He believes that unless this is done, and soon, this Independent Kingdom and perhaps with it the entire Arab world, will be thrown into chaos.

"Yours very sincerely  
S/ J. A. HOFFERT"

\*\*\*\*\*

"April 16, 1941

The President  
The White House  
Washington, D.C.

MEMORANDUM

"King Ibn Saud of Saudi Arabia formerly departed urgently on



the revenue from the pilgrimage and customs duties to finance his government. Due to the war, this revenue has been reduced to a negligible amount.

The only economic resources of any substantial value of Saudi Arabia are its oil resources, the development of which has been seriously interfered with on account of the war.

The King has privately expressed himself, and we believe sincerely, as strongly pro-ally. No other man in the Arab countries, nor among Moslems the world over, commands prestige equal to his. In order to feed and maintain control of his people, which is essential to maintain his prestige in the Arab world and elsewhere and to prepare, even in a moderate way, for equipping his own soldiers for service, he estimates that he will require \$10,000,000 per annum until the emergency has passed and he recently demanded that the California Arabian Standard Oil Company supply him with \$6,000,000 during the year 1941. In addition to this, the British have promised him 400,000 Pounds (£) sterling during 1941, which he hopes to increase to 900,000 Pounds (£).

Based on the best information which we have been able to obtain it is our opinion that the King's estimate of \$10,000,000 for this year is moderate and close to a minimum figure for essential expenditures.

The California Arabian Standard Oil Company owns an oil concession in Arabia consisting of approximately 162,000,000 acres and embracing all the probable oil territory of this country. This area is approximately equal in size to the states of California and Oregon. The original concession was acquired in 1933 and runs until 1999. The company is of American nationality and 50 per cent is owned by the Standard Oil Company of California and 50 per cent by the Texas Corporation. These two companies between them have approximately 160,000 American stockholders.

The development work commenced in 1933 and to date the company has discovered on three structures an estimated 750,000,000 barrels of crude oil reserves and there are many other structures of considerable promise on this concession. The California Arabian Standard Oil Company has so far spent approximately \$27,500,000 on this development. In addition, the company has advanced to the King against future royalties \$6,800,000. It has now come to a point where it is impossible for the company to continue the growing burden and responsibility of financing an independent country, particularly under present abnormal conditions. However, the king is

desperate. he has told us that unless necessary financial assistance is immediately forthcoming, he has grave fears for the stability of his country.

#### PROPOSAL

- \*1. We propose that the United States Government purchase from the Saudi Arabian Government finished petroleum products to the value of six million dollars annually for a period of five years.
- \*2. The company will contract with the King to produce, manufacture and load such products for his account at a Persian Gulf Port.
- \*3. The King will waive royalty on an amount of crude oil corresponding at current royalty rate to \$6,000,000.
- \*4. The products taken under this arrangement, except that taken for use by the U.S. Navy or other U.S. Government purposes within the area, would have to be moved outside an area approximately defined as follows: Egypt, the East Coast of Africa, South Africa, Australia, India, the Straits Settlements, China, Japan and possibly the Philippines.
- \*5. We suggest that for the purpose of determining the quantity of products due under this arrangement an agreement be reached as to the prices of certain products to be supplied over an agreed period.
- \*6. We suggest that our State Department approach the British not only to increase the amount of money which the British have been advancing to the King, amounting to 400,000 Pounds (£) sterling per year, but also to request the British to continue to make such advances in sufficient amount, which, added to those made by the United States Government, plus any other revenue received by the King, will total approximately \$10,000,000 per year. Any British advances should be on a political and military basis and should not involve their getting any oil from this concession, the British at the present being well supplied from Iran, Iraq and Bahrain, etc.\*

In Paragraph 3 of the letter to the President, dated April 16, 1941 Mr. J. A. HEPFERT alleges that the letter so given to him in rough draft form by the officials of the Arabian American Oil Company read that "if the United States Government will advance to the King of Saudi Arabia six million dollars annually for the next five years, the Calarabian Standard Oil Company will agree to deliver to the United States Government for the account of the King the following products." The letter then went on in exactly the same wordage as previously set forth. The officials of the Calarabian Standard Oil Company

deny the wordage as used by MOFFETT in the rough draft submitted by them. It appears that the original letter to the President can not be located in the library at Hyde Park, New York, or in the files of the various government departments.

J. A. MOFFETT is the former senior vice president of the Standard Oil Company of New Jersey in charge of all foreign and domestic sales. He was also chairman of the board of Bahrain Petroleum Company and chairman of the board of the California Texas Company, an affiliate of the Bahrain Company. He retired from both positions in 1943 and he denies any connection with the Calarabian Standard Oil Company or its successor, the Arabian American Oil Company.

Mr. MOFFETT stated in hearings before the Special Committee to Investigate the National Defense Program of the United States Senate on March 28, 1947, that in April 1941 he was approached by FRED DAVIES, a geologist and then president of the Arabian American Oil Company, and a Mr. LLOYD HAMILTON, an official of the same company. Mr. HAMILTON had just returned from Arabia and while there King Ibn Saud had demanded six million dollars from what is now known as the Arabian American Oil Company as advance royalties. This six million dollars was to be paid each year for five years. The royalty was figured at four gold shillings per ton of oil production. The king had told HAMILTON that his budget called for a minimum of ten million dollars per year and the British government was to supply 400,000 pounds a year. However, he hoped to convince the British government to raise their royalty payments to 800,000 or 900,000 pounds a year. If this was accomplished, the minimum balance to maintain his government amounted to six million dollars a year which he expected the Arabian American Oil Company to furnish to his government.

At that time oil production was not sufficient to pay the king the six million dollars per year demanded. According to MOFFETT, prior to the war the king of Saudi Arabia had been receiving approximately three million dollars a year as gifts from the pilgrims on their annual journeys to Mecca. Due to war these pilgrimages ceased and this source of revenue stopped insofar as the kingdom of Saudi Arabia was concerned.

### III. MIDDLE EAST OIL

#### A. HISTORY OF OIL EXPLORATION

b7D Per ATR



The above information concerning the history of Middle East oil companies was obtained from the files of Confidential Informant T-1 who is a well known expert on oil matters.

WFO 46-1908

IV. ANALYSIS OF CONTRACTS—ARABCO & CALTEX

There is set forth herewith an analysis of the 14 contracts between the Arabian American Oil Company or the California Texas Oil Company and the United States Navy from May 25, 1942 to December 16, 1946.

The total amount of contracts called for under these fourteen contracts was \$90,055,445. The actual amount of oil products delivered by the two companies under the 14 contracts to the United States Navy amounted to 46,383,542.39, for a total cost to the Navy of \$65,190,929.54. There is listed herewith a breakdown according to the type of oil and the contracting company.

|                                     | <u>Barrels</u>      | <u>Amount</u>       |
|-------------------------------------|---------------------|---------------------|
| <u>Arabian American Oil Company</u> |                     |                     |
| Crude                               | 3,074,101.79        | \$ 3,487,130.75     |
| Navy Special                        | 11,600,366.22       | 12,744,971.03       |
| Navy Diesel                         | 7,835,148.13        | 13,163,048.87       |
| Motor Gasoline                      | <u>3,231,945.75</u> | <u>8,344,351.36</u> |
| Total                               | 25,741,561.89       | \$37,739,502.01     |
| <u>California Texas Oil Company</u> |                     |                     |
| Crude                               | -                   | -                   |
| Navy Special                        | 13,416,154.38       | \$14,045,873.97     |
| Navy Diesel                         | 5,814,966.44        | 9,713,651.64        |
| Motor Gasoline                      | <u>1,410,859.68</u> | <u>3,691,501.92</u> |
| Total                               | 20,641,980.50       | \$27,451,427.53     |
| Grand Total                         | 46,383,542.39       | \$65,190,929.54     |

The figures on the actual delivery of oil to the United States Navy by the two companies were obtained from a report maintained by Commander CARL G. FRESCHER, United States Navy, which report lists under each contract the amount of oil delivered, the tanker to which the oil was delivered, the total price and the date the oil was actually put on board the tanker. Commander FRESCHER who has charge of oil purchasing for the United States Navy at the present time turned over to this office his report, two copies of which are being transmitted to the Bureau for their information.

In order to facilitate the investigation as much as possible, the following investigation is being set out along the same lines as the original request made by the Department in its two memorandums.

In the request from the Department the originals or certified photostatic copies of the 14 checks between the United States Navy and the California Texas Oil Company and between the United States Navy and the Arabian American Oil Company were requested. Captain EDWARD L. WOODWARD, United States Navy, Clearance Section, Judge Advocate General's Office, stated that the originals of these contracts were in the hands of the Senate Committee under the chairmanship of Senator OWEN HENNINGER. He stated that as soon as they were returned by that committee he would arrange to have

photostatic copies made of said contracts inasmuch as he thought that the originals should be maintained in the Navy Department to be produced at any time where they are necessary for actual trial.

Captain EDGEMOND stated that as far as the Navy records were concerned, the United States Navy had entered into contracts only with the California Texas Oil Company, the Arabian American Oil Company, and the California Texas Oil Products, Incorporated. He stated that the Navy had entered into no contracts with parent organizations of these companies or any subsidiary companies of the above for the purchase of fuel from Saudi Arabia or the island of Bahrain.

#### A. QUALITY OF OIL PRODUCED AND REFINED

There is set forth herewith the memorandum of H. A. STUART, Rear Admiral, United States Navy, to the Secretary of the Navy, dated May 17, 1941, discussing the possibility of Navy using oil from Saudi Arabia.

17 May, 1941

#### MEMORANDUM FOR THE SECRETARY OF THE NAVY:

"1. I have investigated the possibilities of the Navy using oil from Saudi Arabia and I find conditions to be approximately as follows:

"2. The gasoline has a very low octane number, about 70, which corresponds to a second grade gasoline in commercial use in this country. It could not, therefore, be used in airplane service but could under necessity be used for ordinary purposes, although not advisable.

"3. The Diesel fuel has cetane number of 55 and could be used from a purely operating standpoint, but on account of its high sulphur content its use is inadvisable and is not recommended. The sulphur content is 1.5 to 1.9% while Navy specifications have a maximum limit of 1%. The sulphur would have a very deleterious corrosive effect on the exhaust system.

"4. The fuel oil is of 14 A.P.I. gravity and viscosity under 65 at 122°F. Purely from an operating standpoint this fuel also could be used, but again its use is highly inadvisable for naval vessels on account of its high sulphur content. 3.9% Navy specifications sulphur limit is under 1%.

\*5. The exhaust gases would have a very serious corrosive effect on the uptake spaces of naval ships and would also probably cause serious discomfort - if not more harmful effects - to the anti-aircraft personnel of the ship is exposed to the exhaust fumes.

\*6. The gravity of the situation is appreciated, but Naval use of these fuels could only be recommended as a last resort.

\*7. It is possible that use for a large part of these fuels might be found in the merchant service where the fuel specifications are not so strict for obvious reasons.

H. A. STUART  
Rear Admiral, U.S. Navy  
Director, Naval Petroleum Reserves\*

Mr. ROBERT E. FREEMAN, assistant chief of the Oil and Gas Section, Department of Interior, stated that he had no recollection of making any statement concerning the use of Arabian fuel oil by any Naval vessel.

There is set forth herewith the Enclosure E of memorandum of C. C. WOOD to the Special Senate Committee to investigate the national defense program.

\*CALCULATIONS OF TANKER RATES

\*I Average Per Barrel Rate to Western Pacific from:

|                 |                          |                            |                |
|-----------------|--------------------------|----------------------------|----------------|
| A. Persian Gulf | Navy Special \$1.327     | Diesel \$1.138             | NoGas \$1.037  |
| Computation:    | Persian Gulf to Manila   | per ton 7.85 x .45 - 3.53  |                |
|                 | Persian Gulf to Yokosuka | per ton 10.20 x .25 - 2.55 |                |
|                 | Persian Gulf to Guam     | per ton 9.85 x .30 - 2.95  |                |
|                 |                          |                            | \$7.03 per ton |

Divide per ton price by barrel per ton factors:  
Navy Special 6.8; Diesel 7.6 and NoGas 8.7

|               |                        |                            |                |
|---------------|------------------------|----------------------------|----------------|
| B. West Coast | Navy Special \$1.308   | Diesel \$1.171             | NoGas \$1.022  |
| Computation:  | West Coast to Manila   | per ton 10.00 x .45 - 4.50 |                |
|               | West Coast to Yokosuka | per ton 7.40 x .25 - 1.85  |                |
|               | West Coast to Guam     | per ton 8.51 x .30 - 2.55  |                |
|               |                        |                            | \$8.90 per ton |

Divide by previously indicated barrel per ton factors.

|              |                      |                            |               |
|--------------|----------------------|----------------------------|---------------|
| C. Aruba     | Navy Special \$2.292 | Diesel \$2.051             | NoGas \$1.791 |
| Computation: | Aruba to Manila      | per ton 17.20 x .45 - 7.54 |               |
|              | Aruba to Yokosuka    | per ton 14.20 x .25 - 3.55 |               |



Aruba to Guam

per ton 14.99 x .30 = 4.50

\$15.59 per ton

Divide by previously indicated barrel per ton factors.

|               |                       |                            |                 |
|---------------|-----------------------|----------------------------|-----------------|
| D. U. S. Gulf | Navy Special \$2.50   | Diesel \$2.24              | NoGas \$1.957   |
| Computation:  | U.S. Gulf to Manila   | per ton 18.45 x .45 = 8.31 |                 |
|               | U.S. Gulf to Yokosuka | per ton 15.40 x .25 = 3.85 |                 |
|               | U.S. Gulf to Guam     | per ton 16.22 x .30 = 4.87 |                 |
|               |                       |                            | \$17.03 per ton |

Divide by previously indicated barrel per ton factors.

"II Average Per Barrel Rate to Naples from:

|                 |                      |                |               |
|-----------------|----------------------|----------------|---------------|
| A. Persian Gulf | Navy Special \$1.198 | Diesel \$1.072 | NoGas \$ .936 |
|                 | Crude \$1.147        |                |               |

Computation: Persian Gulf to Naples per ton \$8.15 -  
Divided by barrel per ton factors as follows: Navy  
Special 6.8; Diesel 7.6; NoGas 8.7 and Crude 7.1:

|               |                      |                |               |
|---------------|----------------------|----------------|---------------|
| B. East Coast | Navy Special \$1.006 | Diesel \$ .953 | NoGas \$ .833 |
|               | Crude \$1.021        |                |               |

Computation: East Coast to Naples per ton \$7.25 -  
Divided by barrel per ton factors.

|          |                      |                |              |
|----------|----------------------|----------------|--------------|
| C. Aruba | Navy Special \$1.036 | Diesel \$ .927 | NoGas \$ .81 |
|          | Crude \$ .992        |                |              |

Computation: Aruba to Naples per ton \$7.05 -  
Divided by barrel per ton factors.

|               |                      |                |               |
|---------------|----------------------|----------------|---------------|
| D. U. S. Gulf | Navy Special \$1.286 | Diesel \$1.151 | NoGas \$1.005 |
|               | Crude \$1.232        |                |               |

Computation: U.S. Gulf to Naples per ton \$8.75 -  
Divided by barrel per ton factors.

|               |                      |               |               |
|---------------|----------------------|---------------|---------------|
| E. West Coast | Navy Special \$1.911 | Diesel \$1.71 | NoGas \$1.494 |
|               | Crude \$1.83         |               |               |

Computation: San Pedro to Naples per ton \$13.00 -  
Divided by barrel per ton factors.

## \*III Average Per Barrel Rate to Bremen from:

|                 |  |                |               |
|-----------------|--|----------------|---------------|
| A. Persian Gulf | Navy Special \$1.603   | Diesel \$1.434 | MoGas \$1.252 |
| Computation:    | Persian Gulf to Bremen per ton \$10.90 -<br>Divided by barrel per ton factors. |                |               |
| B. East Coast   | Navy Special \$.845  | Diesel \$.756  | MoGas \$.661  |
| Computation:    | East Coast to Bremen per ton \$5.75 -<br>Divided by barrel per ton factors.    |                |               |
| C. Aruba        | Navy Special \$.963  | Diesel \$.862  | MoGas \$.753  |
| Computation:    | Aruba to Bremen per ton \$6.55 -<br>Divided by barrel per ton factors.         |                |               |
| D. U.S. Gulf    | Navy Special \$1.125   | Diesel \$1.006 | MoGas \$.879  |
| Computation:    | U.S. Gulf to Bremen \$7.65 -<br>Divided by barrel per ton factors.             |                |               |
| E. West Coast   | Navy Special \$1.838   | Diesel \$1.644 | MoGas \$1.436 |
| Computation:    | San Pedro to Bremen per ton \$12.50 -<br>Divided by barrel per ton factors.*   |                |               |

Captain WOODYARD stated that LLOYD HAMILTON, former general manager of Calarabian Oil Company, the predecessor of the Arabian American Oil Company, is deceased and the Navy Department files failed to reveal any information concerning any statement made by him that the British Navy was using the Saudi Arabian oil satisfactorily.

Captain WOODYARD turned over to the writer the following correspondence concerning the assignment of two petroleum technicians to the Persian Gulf to investigate that area's ability to produce fuel suitable for United States Naval use:

28 AUGUST 1942

\*From: The Chief of the Bureau of Ships  
To: The Chief of Naval Personnel.

\*Via: The Chief of the Office of Procurement & Material

\*Subj: Ensign Richard M. Daniel, E-7(S), USNR-  
Request for orders to change of duty.

\*1. It is requested that orders be issued detaching Ensign Richard M. Daniel, E-7(S), USNR, from duty in the office of the Inspector of Naval Material, Houston, Texas, and such other duty as may have

been assigned him, directing him to proceed and report not later than August 20, 1942, to the Chief of the Bureau of Ships, Navy Department, Washington, D.C. for temporary duty under instruction; upon the completion of which to proceed via such transportation as may be furnished by the Bureau of Naval Personnel, including commercial air to Bahrain Island, Persian Gulf, upon arrival report to the Resident Inspector of Naval Material for duty in his office.

"2. It is requested that Ensign Daniel be authorized per diem of \$6.00 while on air travel status and while on duty beyond the continental limits of the United States. It is further requested that he be authorized to perform such travel including by air, as may be necessary for the proper performance of his duties.

"3. This establishment of a Resident Inspector of Naval Material at Bahrain Island, Persian Gulf was made necessary due to the increased amount of petroleum products being purchased under Lend Lease appropriations. This is a very vital inspection duty, and it is urgently necessary for Ensign Daniel to arrive at his new station at the earliest practicable date, and it is considered necessary for him to travel from Washington to his new station via air.

S/ W. A. BRUCE  
By Direction

\*\*\*\*\*

Aug. 16, 1942

"From: The Chief of Naval Personnel  
To: Lieutenant  
Clifton S. Goddin, Jr., E-V(3), U.S.N.R.  
Office of Procurement and Material,  
Navy Department.

"Via: The Chief of the Office of Procurement & Material

"Subj: Temporary additional duty.

"1. When directed by the Chief of the Office of Procurement and Material, you will proceed to Bahrain Island, Persian Gulf, via such transportation including via air, as may be furnished by the Bureau of Naval Personnel, and upon arrival you will assume temporary duty as Resident Inspector of Naval Material, U.S.N., Petroleum Products.

\*2. You are hereby authorized to perform such travel as may be considered necessary in the proper performance of this duty, involving via air.

\*3. This is in addition to your present duties and upon the completion thereof, you will return to Washington, D.C., and resume your regular duties.

\*4. You will report by letter to the Chief of the Office of Procurement and Material and to the Chief of the Bureau of Ships for this duty.

\*5. In addition to the actual cost of travel a per diem of \$6.00 in lieu will be allowed while absent from your station.

S/ MANDALL JACOBS

\*Copy to:

Chief, Office of Procurement  
and Material, Navy Dept.  
Resident Inspector of Naval  
Material, U.S.N., Petroleum  
Products, Bahrain Island,  
Persian Gulf.  
Bu Ships

THE ABOVE NAMED INDIVIDUAL EXECUTED THE REQUIRED AFFIDAVIT STATING THAT HE IS NOT DRAWING A PENSION DISABILITY ALLOWANCE, DISABILITY COMPENSATION OR RETIRED PAY FROM THE GOVERNMENT OF THE UNITED STATES:

\*1st Endorsement

September 19, 1942

\*From: The Chief of Procurement and Material  
\*To: Lieutenant Eifrem S. Godin, Jr., E-V(S), U.S.N.R.

\*1. Delivered. Proceed on or about September 23, 1942 and carry out basic orders.

S/ CHAS. E. MALLORY,  
By Marettica

BUREAU OF NAVAL PERSONNEL

\*Transportation furnished as follows:

1/2 E-1, 242,289 New York, N.Y. to Bahrain via PA-Fisherman's Lake  
E-4 E-1, 242,250 New York, N.Y. to Fisherman's Lake via PA-  
Approx. 50 lbs. Gov. equip.

E-1, 242,291 Fisherman's Lake to Bahrain via PA-4 approx. 50 lbs.  
Gov. equip.

\*M-1,242,292 Washington, D.C. to New York, N.Y. via PRR  
\*M-1,242,293 Washington, D.C. to New York, N.Y. 1 seat

S/ \*G. C. HANLEY  
Lieutenant, USNR

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\*Left Washington, D.C. 2000 Sept. 25, 1942 arrived N.Y. 3030 Sept. 26, 1942  
Left New York, N.Y. 0923 Sept. 28, 1942 Arrived Fisherman Lake 0145  
Oct. 3, 1942.  
Left Fisherman Lake 1058 Oct. 6, 1942 Arrived Cairo, Egypt 1017  
Oct. 7, 1942  
Left Basra, Iraq 0430 Oct. 27, 1942 arrived Bahrain Isle 0730 Oct. 27, 1942.

S/ \*C. S. GODDIN, JR.

-----  
\*Bahrain Isle

\*1. Office of Inspector of Naval Material, USN, Bahrain Isle,  
established this date.

\*Bahrain Isle, Nov. 17, 1942      S/ \*C.S. GODDIN, JR.  
Paid: \$222.00 Agn. PS & T 1943  
Voucher No. 1.43\*

In the original request for investigation by the Department, a request was made for schedule of the results of tests of Saudi Arabian oil samples made by Calarabian attached to memorandum dated January 8, 1943, from Standard Oil Company of California to Rear Admiral STUART. Captain WOODWARD stated that a search of his files failed to reflect any such memorandum. However, he turned over to the writer a copy of a communication from Mr. R. C. ALBRICH of the Army-Navy Petroleum Board, dated October 12, 1943, on the subject "Saudi Arabia; expected Navy fuel oil blend." This memorandum, together with the results of tests, is as follows:

\*1. Last week, when Mr. OTTO MILLER of the Standard Oil Co. of California was here, he indicated the possible make-up of the expected Navy Special Fuel Oil blend from Saudi Arabia. These figures were submitted by me last Wednesday to the Navy Boiler and Turbine Laboratory at Philadelphia for study.

\*2. The results of this study indicate that the blend should be stable and compatible if the reported data is correct. Some doubt exists regarding the straight run residuum. It is thought strange that a topped crude with a 14.7 A.P.I. gravity, supposedly containing

50% asphalt and having a Conradson carbon value of 10, could have a viscosity of 1500 S.S.U. @ 130°F and a pour point of 70°F without the presence of wax. Mr. MILLER reported that no wax exists in the residuum itself, although the lube cut above it is very waxy.

\*3. The Navy Boiler and Turbine Laboratory is somewhat skeptical as to the final blend's ability to make 25 S.S.F. viscosity @ 122°F, although the asphaltic material in the cutter stocks will definitely help this point. The Navy Boiler and Turbine Laboratory feel that if the final blend, as indicated, will have an API gravity of 20, and a Conradson carbon value of 6, the blend will be satisfactory.

\*4. Mr. MILLER indicated that the Standard Oil Co. of California would make all the necessary tests for compatibility, viscosity, stability, pour, etc. out there, but would, in any case, send the final selected blend to Philadelphia for the Navy's approval. The Navy boiler and turbine laboratory suggest that three or four possible blends, rather than one, be sent there for approval, so that variations in refinery operation will not be limited in trying to make the only one approved blend. They further suggest that the Standard Oil Co. of California mix these final blends with the new Shell fuel made in California, as it offers the most difficult compatibility test likely to be met.

S/ W. C. ALDRICH

\*Distribution:-

1. Comdr. Latrobe, Bureau of Ships
2. Lt. Col. McCobb, AFPS 80
3. Mr. Gavin, Pak
4. Lt. Aldrich\*

\*\*\*\*\*

PHILADELPHIA

\*SELECTED NAVY SPECIAL FUEL OIL BLEND

| Component                               | Vol. %       | Quantity      |  | Viscosity<br>SSU @ 130°F | Pour<br>°F |
|---|--------------|---------------|--|--------------------------|------------|
|   |              | EPD           |  |                          |            |
| Straight run residuum                   | 61.0         | 13,000        |  | 1500                     | 70°        |
| Cracked Tar                             | 20.8         | 4,500         |  | 1600                     | 70°        |
| Reformed Tar                            | 3.7          | 800           |  | 80                       | very low   |
| Straight Run Distillate                 | 12.2         | 2,650         |  | 30                       | very low   |
| Thermal Cracked Cutter Stock            | 2.3          | 490           |  | 35                       | very low   |
| Cycle Gas Oil (TCC Unit)*               | 5.0          | (1,650)       |  | 35                       | very low   |
| Cycle Gas Oil (Fluid Catalyst<br>Unit)* | 2.8          | (9,750)       |  | 50-60                    | 40°        |
|   | <u>100.0</u> | <u>21,440</u> |  |                          |            |

\*available if suitable

**\*SAUDI ARABIAN REFINERY  
NAVI SPECIAL FUEL**

**\*A. Straight Run Residuum**

|                  |                |
|------------------|----------------|
| Quantity         | 13,000 BPCD    |
| Gravity          | 14.7           |
| Viscosity        | 1900 SSU/130°F |
| Sulfur           | 3.3            |
| Pour             | about 70       |
| asphalt content  | about 50%      |
| Conradson carbon | 10             |

**\*B. Cracked Tar**

|           |                 |
|-----------|-----------------|
| Quantity  | about 4500 BPCD |
| Viscosity | 1600 SSU/130°F  |
| Gravity   | 6° A.P.I.       |
| Pour      | about 30        |

Notes: High quality cracked tar of low benzol insoluble and sediment by extraction, and a HCI of not over 0.03.

**\*C. Reformed Tar (from reforming straight run naphta.)**

|           |              |
|-----------|--------------|
| Quantity  | 800 BPCD     |
| Viscosity | 80 SSU/130°F |
| Gravity   | 15.0         |
| Pour      | very low     |

High quality polymer tar.

**\*D. Straight Run Distillate (May or may not be used)**

|            |              |
|------------|--------------|
| Quantity   | 2550         |
| Gravity    | 14.4         |
| Viscosity  | 30 SSU/130°F |
| Sulfur     | 0.11         |
| Pour       | very low     |
| aniline pt | 143          |
| Flash      | 150 F        |

**\*E. Thermal Cracked Cutter**

|               |                               |
|---------------|-------------------------------|
| Quantity      | 490 BPCD, can be increased if |
| Gravity       | 30° API necessary.            |
| Viscosity     | 35 SSU/130°F                  |
| Sulfur        | low                           |
| aniline point | 105-110                       |
| Pour          | Less than zero                |

7. Cycle Gas Oil From FCC primary cracking of light distillate, not from FCC reventing of catalytic naphtha.

|             |             |
|-------------|-------------|
| Quantity    | 1650 BBL    |
| Density     | 26-260 API  |
| Viscosity   | 35 mm/1300F |
| ANILIN      | 1.00        |
| Flash       | very low    |
| ANILINE Pt  | 80-100      |
| ASTM 908 pt | 910         |

All available is satisfactory.

8. Cycle Gas Oil From cat. cracking of Heavy Straight Run Gas Oil

|                      |                 |
|----------------------|-----------------|
| Quantity             | 9750            |
| Viscosity            | 50-60 SSU/1300F |
| Gravity              | 22-25° API      |
| Pour                 | about 440       |
| Aniline              | about 110       |
| Boiling Range (ASTM) | 450 to 800      |

(can be used if satisfactory)

There is set forth beneath a report of the Inspector of Navy Material, Bahrain Island, to the Bureau of Ships, dated March 20, 1945.

From: Inspector of Naval Material, USN  
To: Bureau of Ships, Attention Lt. Cmdr. W. C. Latrobe, USN

Subj: California Arabian Standard Oil Company - Visit to.

Encl: Flowchart of Ras Tanura Refinery

2. The facilities of the California Arabian Standard Oil Company, (CASOC), in Saudi Arabia were inspected during the period March 6-9, 1945, 1945. The following company officials were contacted:

|              |                             |
|--------------|-----------------------------|
| F. H. OETTER | General Manager             |
| C. L. LAYTON | Production Supervisor       |
| T. KELLEY    | Personnel Manager           |
| T. C. BARBER | Perdga Refining Manager     |
| S. A. HAYES  | Manager Ras Tanura Refinery |

CASOC - GENERAL

The California Arabian Standard Oil Co. was originally established by the Standard Oil Co. of California to explore and



develop an oil concession of 165,00 square miles obtained from the Saudi Arabian Government on July 14, 1933. CASOC is now owned 50% by the Standard Oil Co. of California and 50% by the Texas Co. The main oil camp is located at Dhahran about 5 miles inland from the Coastal town of Al Khobar which in turn is about 25 miles west of Yanam on Sarheim Island. Dhahran is in the middle of the Dammam Dome oil field where the first well was completed in June, 1936. The camp is complete with executive offices, air-conditioned cottages, hospital, mess hall, warehouses, garage and repair shops, etc. Just outside of the camp are located a central separator system for removing gas from the crude collected from the surrounding wells, the crude stabilizing plant, crude storage tanks, and a station for pumping crude through pipelines to the refinery at Ras Tawurah or the barge loading docks at El Ariziyah. Prior to the war about 370 Americans, including number of families, were employed by the Company, but at present this number has been reduced to 90 owing to curtailment of drilling operations during the war.

CASOC has a far sighted policy of dealing with the Arabs and is cooperating with the Saudi Government particularly in the drilling of water wells and developing numerous irrigation projects. One unusually ambitious proposal involving the cultivation of some 100,000 acres near Riyadh, home of King Ibn Saud, has been held up pending delivery of large water pumps from the U.S. The company has also developed gardens to supply vegetables for its own kitchen and has a sizeable herd of cattle and dairy cows.

An excellent airplane landing field has been developed near Ras Tawurah with main runway heading into the prevailing north wind, over 3,000 yards long. The surface is perfectly flat composed of very hard natural clay with a rock foundation. This field was claimed to be capable of landing any known size plane. A smaller emergency airfield is also available near the oil camp at Dhahran.

By and large, CASOC is well known throughout the Middle East for the excellence of its accommodations and high morale of its employees. Cooperation extended U.S. Navy representatives and other armed forces in this area has been excellent.

#### WELL PRODUCTION

The first oil well was drilled into the Dammam Dome and oil was struck at 2,175 feet in June 1936. Other wells were drilled but the oil proved to be heavier than desirable. Taking a cue from

Dahran operations drilling was extended in search for deeper pay sands and in 1938 a high quality crude was discovered at 4,200 feet in the 'Arab' zone. At the present time there are 19 completed wells in the Damman Dome, and 6 which have not been completed pending further developments in the war. Of the 19 completed wells, 13 have been plugged with concrete and strings of tubing hung. The remaining six producing wells have a total safe capacity of about 60,000 barrels per day and are protected against bombing by velocity chokes.

Other fields have been explored in the concession and wells showing good production possibilities completed. No oil is collected from these other fields and full development awaits growth of market outlets. Two wells have been completed at Abqaiq (about 30 miles south of Dhahran), and one 10,000 foot well at Abu Hadriya (about 50 miles north of Dhahran and 5 miles inland from the Persian Gulf). A wild cat has been drilled at Jaurf (several miles south of the Neutral Zone below Kuwait), and another wildcat which, at the present stage of completion, has proved to be a dry hole, at Ma'aqala (about 160 miles west of Dhahran).

At the present time no drilling operations are being carried on.

#### CRUDE STABILIZATION

Crude oil flowing from the Damman Dome wells at well head pressure of about 800 lbs, is carried by a network of lines to a central gas separator system near the Dhahran Camp. Here the crude is flashed in two stages, the first stage operating at 250 lbs. and the second at 50 lbs. Gas from the separators is burned in Hansen Burner type flares and the flashed crude is sent to the Stabilizer Plant.

At the Stabilizer Plant the crude is heated and further flashed at 5 lbs. pressure in three parallel primary fractionating towers where hydrogen sulfide and wet gas are taken overhead. The stabilized crude from the bottoms of the towers is cooled and sent to tankage. Capacity of the primary towers is about 50,000 bbls. per day of stabilized crude. The wet gas overhead is compressed in two stages, cooled and the liquid and gas charged to a fractionating tower operating at 300 lbs. pressure. In this tower a 30 lb. R.V.F. light naphtha is taken off at the bottom and sour gas overhead which is burnt at the flares. The light naphtha is blended back with the stabilized crude. Final blended crude has a gravity of about 35° API.

\*Gas compressors are driven by gas engines and process steam is generated by gas-fired boilers. The cooling water towers and tubular oil condensers and coolers are built as an integral unit with water flowing down from the wooden cooling tower section over the tubes of the oil coolers, then to sumps where it is picked up by pumps and recirculated to the top of the cooling towers.

#### \*PIPELINES AND SHIPPING FACILITIES

\*A pipeline capable of carrying up to 40,000 bbls. per day runs from the stabilized crude tanks to the oil barge loading docks at El Aziziyah (Lone Lane) about 10 miles southeast of Ushran. Two small crude storage tanks and a diesel driven pump (about 9,000 bbls.) per hr. cap.) are at El Aziziyah. Three barges are available for carrying crude from Aziziyah to the unloading terminal at Zallaq on Bahrain Island. The maximum barging rate is about 35,000 bbls. per day, which is also the capacity of the pipeline from Zallaq to the Bahrain refinery. At the present moment only about 6-8,000 bbls. per day of crude are being shipped from Arabia to Bahrain.

\*A crude pipeline capable of carrying up to 50,000 bbls. per day runs from Ushran to the refinery and loading docks at Has Tamarah, 40 miles north of Ushran. The anchorage at Has Tamarah is about 1,000 yards off shore in 60 feet of water. Four submarine lines run out to the anchorage byoys, each with a capacity of 9,000 bbls. per hour. Two of the lines are used for white oils and two for black oils. At the present time no shipments are being made from the Has Tamarah anchorage.

#### \*HAS TAMARAH REFINERY

\*The Has Tamarah Refinery is a small unit designed to process 3,000 bbls. per day of Arabian crude. The following yield of products is typical:

| <u>Input</u>          | <u>Bbls./Day</u> | <u>Vol. %</u> |
|-----------------------|------------------|---------------|
| Crude (35° API)       | 3,000            | 100.0         |
| <u>Output</u>         |                  |               |
| Gasoline (9 lbs. RVP) | 800              | 26.7          |
| Kerosene (46° API)    | 300              | 10.0          |
| Mixed Oil (24° API)   | 1,000            | 33.3          |
| Fuel Oil (15.5° API)  | 800              | 26.7          |
| Gas and Loss          | <u>100</u>       | <u>3.3</u>    |
| Total                 | 3,000            | 100.0         |

\*A flow sheet of the refining unit is enclosed. Crude oil from storage is pumped through heat exchangers and a small gas-fired heater to the crude distillation column. Gas and light naphtha are taken overhead, the gas being sent to fuel and the light naphtha mixed with reformed naphtha to comprise stabilizer feed. A heavy naphtha side cut from the crude distillation column (41.5 octane number, 370°F endpoint) is charged hot to the reformer furnace. Kerosene and diesel oil side cuts are taken off further down the crude column and sent to separate steam strippers. The 16.5° API reduced crude from the bottom of the tower is cooled and sent to storage for use as fuel oil.

\*The heavy naphtha side cut is charged at 1,000 lbs. pressure to the reformer furnace operating with coil outlet temperature of 1,020°F. The reformer products are quenched and sent to the 200 lb. reformer tower where reformed gasoline is taken overhead and light tar as bottoms. The light tar, together with polymer from the bottom of the polymer tower, is steam-stripped and sent to storage for burning or fuel oil blending. The reformed gasoline is passed through fuller's earth in Gray towers to remove reforming constituents and improve color. Polymer produced by this operation is separated out in the following polymer tower. The overhead reformed gasoline (octane number of 68-72) is condensed, mixed with the straight run naphtha from the crude tower and charged to the stabilizer tower where light ends are removed to produce a stable gasoline of about 9 lbs. RVP.

\*The Bas Tamarah refinery was shut down in June, 1941 and has not been operated since. All equipment is being maintained and the unit can be put on stream with short notice.

#### \*QUALITY OF REFINED PRODUCTS

\*In Table I are summarized typical inspections of refined products manufactured before Bas Tamarah refinery was taken off stream. To much emphasis should not be placed on these inspections since by suitable blending and modification of refining operations (particularly in the event that plant capacity is expanded) a closer approach to Navy specifications could be made. In general, insofar as present distillate stocks are concerned satisfactory products closely resembling those produced at Bahrain refinery could be made. Owing to lack of sulphur dioxide extraction equipment Bas Tamarah kerosene would have poorer burning qualities than Bahrain production. As at Bahrain water would be

required on four points of diesel and fuel oils. Owing to lack of cracked fuel oil stocks some difficulty might be experienced in meeting Navy fuel oil compatibility specifications.

S/ C. S. GOUGHIN  
Lieut. USNR

The original memorandum from the Department requested copies of the report of the Inspector of Naval Materials, Bahrain Island, to the Naval Boiler Testing Station at Philadelphia, Pennsylvania, dated May 13, 1943. There are being enclosed to the Bureau two photostatic copies each of reports Nos. 3522, 3522A, 3522B and 3522C on the subject of Navy grade special fuel oil samples from the Bahrain Island refinery, Abadan and Haifa, submitted for brand approval.

There is set forth herewith report of special committee established under the Pyron Agreement with the British in 1943, concerning tests made of Bahrain and Aramco oil which was turned over to this office by Captain WOODWARD of the Navy Department:

\*24 February 1944

\*1. In accordance with your letter dated 19 February 1944, above subject, answers to the following questions are listed below:

\*a. 'What action was taken on the letter from General Lee to the Army-Navy Petroleum Board dated 18 January 1943 and on the letter from Lt. Colonel Paul to General Pyron dated 25 May 1943?'

\*answer: The letter from Colonel Paul was answered by a letter, dated 7 June 1943, from General Pyron (Tab.1) attached. The letter from General Lee was not answered directly by ANPB, although, subsequent to the date of his letter, various agreements and decisions were reached between the IAPB and the Area Petroleum Office in UK. References to these subsequent actions are all marked (Tab 2) on the attached file, subject: 'British Specifications Committee' which has been borrowed from ANPB for the purpose of answering the specific questions raised in your letter. One of the main actions of the ANPB on this problem was to establish the Joint Services Petroleum Products Specification Committee (approved at ANPB meeting on 1 July 1943) whose functions are to:

(a) Co-ordinate the standardization of specifications for petroleum products and inspection procedures.

(b) Co-ordinate the simplification and standardization for containers and labeling practices.'

"It is the opinion of this office that the action taken by ANPB, in cooperation with the U.S. Army and the U.S. Navy, to coordinate specifications as described in (Tab 3) attached has not been the result of any one piece of correspondence but rather the general progression which would be expected as the need for even further specification coordination became evident. In other words, the current activity and work of the Joint Services Petroleum Products Specifications Committee would have gone forward even without the impetus of the letters from General Lee and Colonel Paul.

"b. Has the Special Committee in London finished its work of combining and simplifying specifications and what have they accomplished?

"Answer: The committee in London has completed its work and an informal copy has been furnished to this office and is marked (Tab 4) attached. This copy was received by ANPB from their representatives in the U.K. although the official copy which will be transmitted through British channels has not yet reached ANPB. This report, is complete with the exception that Appendix #1 was not included in the informal copy received, although its absence is explained in the first sentence of paragraph 2 of (Tab 4). The London Committee has apparently completed its objective, namely; 'To consider the reduction in number of the various grades of lubricants used by the British forces and the unification of these grades with equivalent American Products.' It appears pertinent at this point to state that in many cases, the work of the London Committee, included the listing of specifications in place of proprietary brands. To a considerable extent, such work had already been accomplished for U.S. Specifications long before the British activity on this point. It is believed that the interest of the ANPB committee is different from that of the British committee since the U.S. Army and U.S. Navy have been very active for the past several years in simplifying specifications and reducing the number of grades. Thus, the work of the ANPB committee has been to coordinate the already excellent petroleum specifications of the U.S. Military services. On the other hand, the British committee has had the entire job to do, including devising of specifications. The excellence of the large volume products covered by U.S. Army Specifications was recognized as long ago as 1942, even by the British who accepted all U.S. products in the Byron-Paul agreement.

"c. Were any reports ever received from Captain (now Major) Greiner or Mr. Shepard who sat on the Committee as observers?

"Answer: Reports were received from both individuals listed, in addition to Mr. R. L. FLEET, U.S. Petroleum attaché in London.

Such reports furnished progress information on the activities of the London Committee and are marked as (Tab 5) attached.

14. Has there been any further unification of specifications since the Byron-Snal agreement?

**ANSWER:** Since the Byron-Snal agreement there has been little formal unification of specifications with the British, other than those products used in aircraft. It is emphasized, however, that the simplification of specifications and the reduction in the numbers of grades of petroleum products has been carried forward at an ever increasing rate by the U.S. Army and the U.S. Navy and is still continuing.

15. Where does the matter stand now?

**ANSWER:** Beginning on 1 July 1943, a committee was established by the AMFB called the 'Joint Services Petroleum Products Specifications Committee' to coordinate U.S. specifications. The Chairman of the committee is Lt. Comdr. E. K. ABERNETHY and pertinent correspondence showing the interest of the Fuels and Lubricants Division in this activity is listed as (Tab 6) attached. The work of this committee to date has been to list the equivalent and nearly equivalent specifications currently used by the U.S. Army, the U.S. Navy and the Air Forces of the respective services as shown by (Tab 7) attached. This work is nearly complete and an invitation has been sent forward to the British, (Tab 8) attached, requesting that a meeting be held in Washington to coordinate the work of the two committees. The AMFB and this office believe that Major J. C. CHAFFIN of the Area Petroleum Office in London should return for this conference.

16. What are your recommendations?

**ANSWER:** The sole recommendation of this office is that the planned U.S. Procedure be carried out to the letter, namely; to have British representatives meet with the AMFB sub-committee in Washington and coordinate specifications and compile the necessary tables of equivalents for all petroleum products used by the U.S. Military forces of the United States and the British.

It is emphasized that the work of the joint U.S. - British committee cannot displace or supersede the products which have already been standardized and on which the U.S. Army has been trained. It is believed that the main work of this committee will

be to standardize on the smaller volume items, perhaps by British acceptance of the excellent U.S. products. In no case can practical agreements be made with the British which affect U.S. Army product application without final approval by the War Department Committee on Liquid Fuels and Lubricants.

WILLIS /S  
WILLIS

There is set forth herewith the report of H. H. FOX, JR., concerning tests of oil samples from Saudi Arabia and Bahrain Island during 1944 and 1945.

15 April 1947

The principal relationships that existed between the Anglo-Iranian Oil Co. and U.S. Navy during the late war had to do with the technical liaison in products procurement and the acceptance of full cargoes of finished products at Abadan by the U.S. Government under reversed Lend-Lease agreements.

In early 1943, U.S. Navy officer inspectors of petroleum products, who had been assigned duty to Persian Gulf areas, visited the Anglo-Iranian Oil Co. refinery at Abadan, Iran. The British were most cooperative with these inspectors and supplied all information requested.

During 1943, it became obvious that a more complete technical coordination between the Royal Navy and the U.S. Navy would be necessary to bring the Japanese War to a successful conclusion. The Army-Navy Petroleum Board, in late 1943, initiated immediate steps to bring the fuel oil specifications of the two Navies into more nearly complete agreement. The aim was ultimately to agree on a common specification.

At this time, and even in early 1944, the Admiralty fuel produced at Abadan was manufactured to very loose specifications. The product was more or less an uncontrolled residual black oil, the viscosity of which varied widely and which had no requirements for stability and compatibility, as did the American fuel oil.

In the summer of 1944, the British Admiralty delegation acting for the Admiralty and the Ministry of Fuel & Power, requested Bureau of Ships technical representatives to come to London and discuss ways and means to achieve the goal of a common specification considered necessary in the prosecution of the Pacific war. By this time, it was realized that Naval fuel oil would be the key fuel in the war with Japan, in the same manner that aviation gasoline was the key fuel in the war with Germany. The Admiralty and the Navy had a common specification in both cases.



In September 1944, Bureau of Ships technical representatives arrived in London and engaged in conferences with representatives of the British navy, the Ministry of Fuel and Power, and the Anglo-Iranian Oil Co. to improve compatibility of Naval Fuels used at Abadan with respect to fields produced by American West Coast refineries, and also to develop a common specification for fuel for use by combatant ships of both American and British Navies. Discussions and negotiations were successfully concluded and plans for equipment work and sample exchanges in both countries were completed. Plans for refinery revisions in Abadan were also completed.

In October of 1944, a Bureau of Ships technical representative proceeded to Abadan to assist in the sample exchanges between the British East and the United States, and in the necessary refinery revisions at Abadan.

The Ship's Program was successfully completed with the aid that the British adopted the American stability standard and also the compatibility requirement for all reversed Lead-Lead shipments for use by the American or combined Fleets. The fifty changes at Abadan to effect the desired product improvements were completed in March and April of 1945, and large amounts of Naval Fuels were shipped to the Mediterranean Theater during 1945.

Cooperation between the Anglo-Iranian Oil Co. and the U.S. Navy was of a high order. After the big fire of 6 November 1944 at Abadan, the Naval officer representatives were instrumental in rebuilding the damaged process units. Likewise, in the preparation of samples for shipment to the United States, in the furnishing of new information on request, in the arrangement of the details of the reversed Lead-Lead shipments, etc., the Anglo-Iranian Oil Co. was most cooperative. Also, in 1944 and 1945 new refinery processing units were started at Abadan. U.S. Naval officers who were familiar with the earlier startup of similar units in the United States, were present and assisted in every way possible at Abadan. Special air shipments of critical materials were arranged for by the U.S. Naval inspectors who operated a successful program in operation of these new refinery units.

With the termination of the war, the U.S. Navy shipments of fuel oil from Abadan decreased because by that time, the American refineries in the southern part of the Persian Gulf area were in full operation, and the British were naturally interested in diverting production of refined products to their own interests.

"The cooperation of the Anglo-Iranian Oil Co. officials, both in London and in Iran, with the U.S. Navy as well as with the BAPCO and the AMOCO officials is considered by the undersigned to be of the very highest order. All during negotiations in London in 1944 and in Abadan in 1944-1945, the good faith demonstrated by the Anglo-Iranian Oil Co. was most apparent and, as mentioned above, resulted in the successful conclusion of the mission, in that for the last four months of the Japanese war, the British and U.S. Navies in the Pacific were utilizing a common fuel which could be used interchangeably throughout the western Pacific area.

S/ "E.H. FOX, JR.  
H. E. FOX, JR.  
Commander, USN"

Report No. 3771 issued by the United States Navy Boiler Testing Laboratory, dated September 3, 1946, in its recommendation stated that the products of the Arabian American Oil Company as represented by the subject samples be considered not acceptable for Naval use and not be given brand approval. This report was signed by THOMAS E. BOYCE, director of the Naval Boiler Testing Laboratory. Two copies of this report are being submitted to the Bureau with this report.

Captain MOOREHEAD stated that the results of all tests made by the United States Navy of petroleum products submitted by the California Texas Oil Company and the Arabian American Oil Company under the LA contracts were included in the tanker loading reports. The tanker loading reports from Bahrain Island, Persian Gulf, were obtained and two copies of all such reports are being transmitted to the Bureau with this report. The tanker loading reports for Bas Bahrah are presently in the hands of the Senate Committee to Investigate National Defense and have not as yet been returned to the Navy Department. As soon as these are returned, photostatic copies will be transmitted to the Bureau.

#### E. PARTICIPANTS IN NEGOTIATION

ADAM P. CARTER, Rear Admiral, USNR, a former executive officer of the Army-Navy Petroleum Board and now president of the Overseas-Tank Ship Corporation, furnished to the Navy the following memorandum dated May 20, 1947, which is being furnished by Captain MOOREHEAD to set forth the extent to which Admiral CARTER participated in securing contracts for the sale of petroleum products to the United States Navy by Galtex and Araco:

"My name is ADAM FRANCIS CARTER; born in Dillon County, South Carolina; appointed to the Naval Academy in 1901, and graduated in the Naval Academy class of 1905. I received my commission in the regular Navy in January 1906, to which station

in Boston. In April, 1925, I was asked by the Creditor banks of the New England Oil Refining Company to assume the management of that corporation, and its subsidiaries, which I did. In 1929, the assets of that corporation were sold to the Shell interests and became the nucleus of a new corporation known as Shell Eastern Petroleum Products, Inc. I remained with the Shell interests as President of this corporation until September, 1933, when I resigned. Between that time and March, 1942, I was concerned with various independent operations, mostly in the production of oil or drilling for oil in Texas and Louisiana.

"On March 8, 1942, I accepted a commission as Captain in the United States Naval Reserve, at the request of the then Chief of Naval Operations, Admiral H. R. STARK. Admiral STARK asked me to rejoin the Navy for the purpose of handling the Navy's petroleum problems and its tankers.

"The period from date of joining the Navy until about July 1, 1942, was spent largely in analyzing the petroleum and tanker situation, first of the Navy, and then later in this period the same problems as affected all the United States Armed Forces.

"The Army-Navy Petroleum Board was created about 30 July 1942. I was made Executive Officer of the Board, in addition to continuing my duties as Director of the Fuel and Tanker Division of the Office of Chief of Naval Operations.

"On 10 November 1945, orders were issued detaching me from all duty and directing me to report immediately to the Officer Separation Center, Washington, D.C., for separation from the service and release from all duty. On 19 November 1945, I reported to the United States Naval Hospital, Bethesda, Maryland, and, upon release from the sick list on 27 March 1946, reported to the Separation Center and completed terminal leave on 9 July 1946.

"When, about October, 1945, it became generally known that I was leaving active service in the Navy, I was asked by Mr. COLLIER, Chairman of the Board of the Standard Oil Company of California, if I would consider joining the Standard Oil Company of California--Texas Company group, to which I replied I would give the matter consideration. Mr. COLLIER said that in view of my wide experience in the oil industry and of the world-wide problem with which the joint companies were faced,

he felt that I could be of value to them when my public service was no longer required. at that time there was no discussion of the type of assignment or compensation, since I preferred to postpone any further discussions until I could make up my mind what to do.

"The interview with Mr. COLLIER took place in the Mayflower Hotel, Washington, D.C. I returned immediately to the Navy Department and dictated a memorandum covering the conversation, copy of which was delivered the same day to the Assistant Secretary of the Navy in charge of petroleum matters, Mr. JOHN L. SULLIVAN, and to Admiral HORNE, to whom I was directly responsible. I thereby disqualified myself from participation in any future deliberations concerning matters to which either the Texas Company or the Standard Oil Company of California were parties. I saw Mr. ROGERS, Chairman of the Board of the Texas Company, and Mr. COLLIER, in New York in February, 1946, (while on leave from the Naval hospital), but no decision was made on the proposal to me.

"When I was discharged from the Naval hospital and went on leave in April, 1946, I studied the problem of financing certain operations with which I had previously been associated in the Southwest. It was not until my return from that trip that I finally decided to enter the Service of this group.

"I sailed from New York for England on 9 July 1946, and assumed the duties of Resident-Director of the United Overseas Petroleum Company, Limited, in London. Responding to cable advice from New York, I returned here in late October, 1946, where I was at once made President of Overseas Tankship Corporation, in which capacity I continue to serve.

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"The Army-Navy Petroleum Board became an agency of the Joint Chiefs of Staff early in 1943. From the outset, its functions were to coordinate matters concerned with petroleum needs by the overseas commands, to screen their requirements and to pass along to the respective procurement and handling agencies of the two services information as to action required to meet the overseas demands.

"The procurement agencies of the Army and Navy, and the Army Air Forces purchased their requirements from those sources indicated by the Petroleum Administration for War. Questions as to price were never the responsibility of the Army-Navy Petroleum Board.

"Except for the shipments to the British, a system was evolved whereby all petroleum products shipped to a given war zone were consigned to the Supreme Commander thereof. The issues from these stocks were made on authority of the Supreme Commander and were charged to the recipient thereof. In many cases such bulk stocks were built from both American and British products. With the consigned arrangement above-mentioned, and with careful records as to requisitions for supplies issued at storage points, it became relatively simple to account for the various products and to keep a running inventory. In each of the large commands there was designated an Area Petroleum Officer who obtained from each of its depots and sub-commands once a month a report on all inventories and requirements. From these figures and the estimates of future plans, the Area Petroleum Officer was able to prepare monthly a three-months schedule and forward it to the Army-Navy Petroleum Board for implementation.

"The importance of this work to the successful outcome of the war is perhaps best understood by the relationship of its volume to the volume of all supplies moving overseas. For all services, petroleum products required in the various theatres of war varied from around 50 per cent to nearly 70 per cent. The North African campaign of the British Eighth Army was figured at 69.9 per cent of petroleum products in relation to the entire logistics movement.

"As to the allegations connecting my name with matters concerned with the investigation of oil contracts between the Navy and the Standard Oil Company of California-Texas Company interests, the following summary is submitted:

"(1) I had no cognizance over matters pertaining to the terms of contracts or prices to be paid for any petroleum products.

"(2) Due to the shortage of various grades of products, my associates on the Army-Navy Petroleum Board staff and I, as a matter of policy, undertook to keep the various producing, procuring and transporting agencies of the government informed, so as to assist them in meeting their problems.

"(3) So far as I am aware, I never once discussed the prices to be paid or any other contract conditions for the procurement of products with any official, or with any procurement agency of the Army or the Navy.

"(4) My brother, Vice Admiral W. J. CARTER, was Chief of the Bureau of Supplies and Accounts during a large part of this period. I rarely saw him during those times, and I do not recall ever having so much as a general conversation with him on any petroleum procurement matters, either as to negotiations concerned therewith, prices or terms.

"A. F. CARTER"

Vice Admiral W. J. CARTER, USNR, former chief of the Bureau of Supplies and Accounts, whose present address is 11 Wall Street, New York 5, New York, furnished the following letter, dated April 25, 1947, to the Honorable BURTON K. WHEELER, counsel for the Senate War Investigating Committee. A copy is in the files of the United States Navy:

"My dear Senator:

"Pursuant to your oral request, I herewith submit a statement to you concerning my role in certain business transactions between the Navy Department and the Arabian American Oil Company and the California-Texas Oil Company, Ltd. Needless to say, anything which appears in this statement is to be considered in exactly the same light as if I were to give it under oath before the Senate Committee which has the matter under advisement.

"In order that you may be informed as to certain background information, I desire to state that during the period June 1, 1942 to March 8, 1945, I served as Assistant Chief of the Bureau of Supplies and Accounts. On March 9, 1945, I became the Chief of the Bureau of Supplies and Accounts and served in that capacity until October 1, 1946.

"This Bureau has cognizance over determination of petroleum requirements, procurement and distribution of all petroleum products used by the Navy and those other governmental agencies which desire to make use of the facilities of the Bureau of Supplies and Accounts. As you may readily understand, it is a physical impossibility for any one person at the head of an organization of this size, to supervise personally the detailed functions performed by each individual attached to the Bureau. The general policy as established by me in connection with the purchase of petroleum products was, briefly, that procurement should be made from those areas which taking into consideration availability of product, price, and the transportation involved, would ordinarily constitute the most economic source of supply.

"I delegated the performance of the details of carrying out this responsibility to thoroughly competent and capable personnel whose integrity and loyalty was and still is beyond any question. I stand ready to support with factual data the wisdom of the decisions made in connection with and the general savings to the government which accrued through the purchase of petroleum products by the Bureau of Supplies and Accounts during my tenure of office as Chief of the Bureau.

"My subordinates were under standing orders to refer to me for decision in any matter of policy or any transaction in which there appeared the slightest doubt as to the propriety of the action to be taken.

"As I understand it, the implied allegations in which I am concerned may be briefly summarized as follows:

"(a) While negotiating certain contracts with the above-mentioned oil companies, presumably in the summer of 1945, Lieutenants KALSH and BOEELSCHAFZ, buying officers in the Fuel Purchase Section of the Bureau of Supplies and Accounts, protested the high cost of petroleum products being demanded by the companies to their superior officers in the Bureau of Supplies and Accounts.

"(b) These superior officers overruled the protests of the two Lieutenants and insisted that the contracts be signed at a basic cost of \$1.05 per barrel for Crude Oil and for Fuel Oil Special. Prices of other products were in legitimate relation thereto.

"(c) Insinuations have been made that I was the superior of the superior officers who overruled the protests. It has been further insinuated that I was improperly influenced by my brother who was executive officer of the Army Navy Petroleum Board at the time.

"I cannot testify of my own personal knowledge, or on the basis of secondhand information, as to whether or not Lieutenants KALSH and BOEELSCHAFZ, did in fact, protest this matter to their superior officers. I can testify that at no time did any such protests come to my attention. (This last statement applies to the negotiations in the summer of 1945, as well as to all other negotiations with these companies during the entire time I was either Assistant Chief or Chief of the Bureau of Supplies and Accounts.)

"In order to clarify the role of my brother in this and related matters, it can be said that as Executive Officer of ANPB, he dealt solely with petroleum matters coming under the cognizance of the Joint Chiefs of Staff, and therefore on a very high level of United Nations requirements and sources of supply. He did not have any official cognizance over the negotiation of individual contracts inasmuch as this duty was delegated to the supply agencies involved; The Bureau of Supplies and Accounts for the Navy Department and similar agencies for the Army Ground Forces and the Army Air Forces.

"In conformity with the outlined duties of my brother, and myself, there was not a point at which we met on the subject of oil prices, contracts, or negotiations leading into. I make the categorical statement that I have no recollection of ever having discussed prices, contracts, or negotiations leading thereto, with my brother.

"Criticism has been made of the policy of having officers serve in the petroleum section of the Bureau of Supplies and Accounts who were previously employed in the petroleum industry and who have resumed their former occupation upon leaving the United States Navy. It was the policy of the armed forces to select men for a position who possessed experience and special qualifications for the duties which they were to perform. These men, who served their country well during the war, should not now be criticized for returning to the occupation for which they are trained.

"Recent testimony before the Senate War Investigating Committee has disclosed a proposal which was made to the President of the United States in 1941 for the sale of oil from the Persian Gulf contingent upon certain government financial support. The existence of this proposal was unknown to me and therefore had no bearing on the subsequent negotiations which were held with the companies operating in the Persian Gulf. These were conducted on a strictly commercial basis.

"In compliance with this government's national policy of encouraging free enterprise, Navy purchases of petroleum products, except when produced under governmental control, have always been made on the basis of a fair market value. Therefore, in the absence of any contingent or collateral arrangements with individual oil companies, the contracts for purchase of oil from the Persian Gulf have been substantiated, in retrospect, as having effected a savings of many millions of dollars to this government. The records of this data are available in the files of the Bureau of Supplies and Accounts.



"Except for the few obvious statements on certain broad aspects of this case, I have limited the subject matter of this statement to my own personal role. I can, of course, expand on many of the angles already aired in the public press but I am sure that you are fully informed on these and that should you desire my comments, you will so request.

"Thanking you for your courtesy in making this statement permissible at the present time, I am

"Respectfully,

V. J. CASTER  
Vice Admiral (SC) USN (Ret)

JAMES TERRY JUCE, formerly Deputy Petroleum Administrator for War and later president of the Arabian American Oil Company, according to the files of the Interior Department was born on December 29, 1892 in Worcester, England. He was naturalized by reason of the naturalization of his father in 1899 in the County Court, Glenwood Springs, Colorado. On December 30, 1941, he applied for a position as director of the foreign division of the Petroleum Administrator for War. On February 19, 1942, he entered on duty in grade CAF-15 at a salary of \$30,000 per annum as director of the foreign division. He resigned on October 16, 1943.

The following is given as his previous experience with oil companies. In 1918 JUCE was a geologist connected with the maintenance division of the Texas Company at a salary of \$2400. In 1919 he became division geologist at a salary of \$3600. In 1920 he became the exploratory geologist for North and South America at a salary of \$7200. In 1923 he became the geologist for the foreign division with offices in New York City and he retained this position until 1940. His starting salary was \$4,800 per annum and in 1940 it was \$15,000. In 1940 he became vice president and director of the Calarabian Standard Oil Company at \$15,000.

On his resignation he indicated that he was resigning due to the fact that he was returning to his former position with the Calarabian Standard Oil Company, which company is the predecessor of the Arabian American Oil Company.

There is nothing in the files of the Navy Department to indicate the manner in which JAMES TERRY JUCE participated while serving as a government official in securing contracts for the sale of Arabian oil products.

It is to be noted that the first contacts with the Arabian American Oil Company by the United States Navy was not signed until July 9, 1945,

which was almost two years after DICE's resignation from the Petroleum Administrator for War. However, the original contract with the California-Texas Oil Company was signed on May 25, 1942, which was approximately three months after DICE entered on duty at the Petroleum Administrator for War office.

The Navy Department has no information whatsoever on MAJ W. THORNBURG. Efforts are being made by this office to obtain additional information concerning THORNBURG. Captain WOODWARD stated that he believed there was some information in the exhibits presently in the hands of the Committee to Investigate National Defense and when these exhibits were returned he would endeavor to see if any information concerning THORNBURG was contained therein.

There is listed herewith the Navy negotiator and the contractors' representatives on each of the 14 contracts between the United States Navy and the Arabian American Oil Company of the California Texas Oil Company:

**U. S. NAVY - CALIFORNIA TEXAS OIL COMPANY, LTD. CONTRACTS  
RULI PRODUCTS LI PERSIAN GULF**

| <u>Contract No.</u> | <u>Navy Negotiator</u>                                   | <u>Contractor's Representative</u><br><u>California Texas Oil Co., Ltd.</u>  |
|---------------------|--|--|
| NSax-6166           | CDR E. A. MORGROSS, SC USN<br>CDR YORAN, SC USN          | Mr. E. A. BEVERLY, Director  |
| NSax-31315          | Lt. J. J. WALSH, SC USNR                                 | Mr. E. A. BEVERLY, Director  |
| NSax-34155          | Lt. D.E. BOHENSCHATZ, SC USNR                            | Mr. E. A. BEVERLY, Director  |
| NSax-45004          | Lt. D.E. BOHENSCHATZ, SC USNR                            | Mr. E. A. BEVERLY, Director  |
| NSax-24539          | Lt. D.E. BOHENSCHATZ, SC USNR                            | Mr. E. A. BEVERLY, Asst.<br>Vice President   |
|                     | Lt. J. J. WALSH, SC USNR                                 | Mr. E. P. LAVANUGH, Washington<br>Representative   |
| NSax-151            | CDR D. T. WENGROVUS, SC USN<br>CDR E. S. FURBER, SC USNR | Mr. E. A. BEVERLY, Vice President<br>Mr. H. M. HERON, Chairman of<br>Board<br>Mr. E. P. LAVANUGH, Washington<br>Representative |

**U.S. NAVY - CALTEX OIL PRODUCTS COMPANY CONTRACTS  
RULI PRODUCTS LI PERSIAN GULF**

| <u>Contract No.</u> | <u>Navy Negotiator</u>    | <u>Caltex Oil Products Company</u>   |
|---------------------|---------------------------|--|
| NSax-4151           | COR C. G. MESSNER, SC USN | Mr. E. A. BEVERLY, President<br>Mr. E. P. LAVANUGH, Washington<br>Representative |

WFO 46-1908

U. S. NAVY - ARABIAN AMERICAN OIL COMPANY CONTRACTS  
BULK PRODUCTS EX PERSIAN GULF

| <u>Contract No.</u> | <u>Navy Negotiator</u>   | <u>Contractor's Representative</u><br><u>Arabian American Oil Co.</u>   |
|---------------------|--|---|
| W5ax-11-10985       | Lt. D.E. BODENSCHATZ, SC USNR  | Mr. FRED DAVIES, President<br>Mr. H.G. DENHAM, Manager of Sales   |
| W5ax-12927          | Lt. J. J. WALSH, SC USNR   | Mr. H. G. DENHAM, Manager of Sales<br>Mr. C. W. BARTHELMES, Office of<br>Washington Representative                                    |
| W5ax-12929          | Lt. J. J. WALSH, SC USNR<br>Cdr. D.V. WENIGROVIUS, SC USN<br>CDR. R.S. FOWLER, SC USNR | Mr. H.G. DENHAM, Manager of Sales<br>Mr. H.G. DENHAM, Manager of Sales<br>Mr. C.W. BARTHELMES, Office of<br>Washington Representative |
| W5ax-2375           | Mr. J. E. COLLINS<br>CDR G. G. DRESCHER, SC USN  | Mr. H.G. DENHAM, Manager of Sales<br>Mr. C.W. BARTHELMES, Office of<br>Washington Representative                                      |
| W5ax-3956           | CDR G.G. DRESCHER, SC USN  | Mr. C.W. BARTHELMES, Office of<br>Washington Representative   |
| W5ax-4207           | CDR G.G. DRESCHER, SC USN  | Mr. C.W. BARTHELMES, Office of<br>Washington Representative   |
| W5ax-4856           | CDR G.G. DRESCHER, SC USN  | Mr. C.W. BARTHELMES, Office of<br>Washington Representative   |

C. RED LINE AGREEMENT

b7D Per ATR

Confidential Informant T-1 stated

In the magazine "Time" dated March 24, 1947 a reference was made to the Red Line Agreement in that a statement was made that Standard Oil Company of New Jersey has long wanted to get into Arabia but was virtually barred by the famed and cartel-like Red Line Agreement which it was forced to sign to get a share in Iraq petroleum. This article went on to state that under this agreement no member of an Iraq petroleum company would develop fields in the red line area unless they put the oil in a common pot. This article stated that a week prior to this publication, Standard Oil Company of New Jersey formally announced that the agreement was dead and that Standard Oil of New Jersey and its partner in the Middle Eastern oil fields, Socony Vacuum, reached an agreement with the Standard Oil Company of California and the Texas Company which put the Standard Oil Company of New Jersey and Socony Vacuum into oil production in Arabia.

WFO 46-1906

The Red Line Agreement is so-called because members of I.P.C. simply drew a red line around the map, taking in most of the old Ottoman empire.

D. COST OF PRODUCING AND REFINING PRODUCTS

b7D Per ATR

Captain HOOKLAND, USN, stated that the Navy Department has been unable to obtain any records concerning the cost of production of crude oil and of refining various types of oils in the Middle East area. However, Confidential Informant T-1 was [redacted]

[redacted]

b7D Per ATR

The above information was obtained by Confidential Informant T-1

[redacted]

JAMES TERRY DECE in his testimony before the Brewster Committee on October 31, 1947, estimated the cost of production for the period January 1, 1945 to July 31, 1945, as approximately \$.406 per barrel.

In this committee testimony reference was made to a letter, dated July 21, 1946, from DECE to a Mr. J. E. MC DONALD in which the cost is figured at \$.3310 per barrel, which includes royalty of \$.2199 and other operating expenses of \$.0796.

b7D Per ATR

Confidential Informant T-1 stated that [redacted]

[redacted]

## B. PRICES PRODUCTS SOLD TO OTHER CONSUMERS

In the testimony of JAMES T. DUCE of October 31, 1947, before the Brewster Committee he admitted that oil had been sold to France at 85¢ or 90¢ a barrel at the same time the United States Navy was paying \$1.05 per barrel for the identical oil. He gave as an explanation for this that it was an effort by the Arabian American Oil Company to obtain new markets for their products. DUCE further admitted in his testimony that oil had been sold to the Uruguayan government at \$2.00 per barrel delivered. He estimated that the freight cost involved in this \$2.00 price was about \$1.00 and that the cost at the refinery of Bas Taura was approximately \$1.00. This sale, according to his testimony was in December 1946 and at the same time the Arabian American Oil Company was selling oil to the Navy and UNRA for \$1.17 and \$1.21 per barrel.

A review of the printers copy of the testimony reflected that the Arabian American Oil Company based its price to the United States Navy on the market price at that time, that is what the same type of oil would sell for at that particular time. It was the contention of the oil company officials that the prices charged to the United States Navy were either lower than or the same price as the Navy would have to pay to other companies for the same type of oil. There is set forth herewith a schedule prepared by the United States Navy reflecting the price paid by the Navy for oil at the Persian Gulf, together with comparative price that would have been paid from the East Coast, from the Gulf Coast of the United States, and from the Caribbean area. In this schedule there is also an estimated transportation rate.

AL FANJIAN GULF - TRANSPORTATION COSTS ESTIMATED

| <u>PRODUCT</u>                          | <u>QUANTITY</u>      | <u>AVERAGE UNIT PRICE</u> | <u>VALUE OF PRODUCT</u> | <u>TRANSPORTATION RATE</u> | <u>TRANSPORTATION COST</u> | <u>DELIVERED COST</u> |
|---|----------------------|---------------------------|-------------------------|----------------------------|----------------------------|-----------------------|
| <b>FUEL OIL SPECIAL</b>                 |                      |                           |                         |                            |                            |                       |
| Eastern Pacific (85%)                   | 19,710,088.02        | 1.07984                   | \$ 21,288,806.02        | 1.287                      | \$ 28,128,288.02           | \$ 49,417,094.04      |
| Mediterranean (7 1/2%)                  | 1,728,125.20         | 1.07984                   | 1,872,125.20            | 1.128                      | 2,053,471.20               | 3,925,600.40          |
| European Theater of Operations (7 1/2%) | 1,728,125.20         | 1.07984                   | 1,872,125.20            | 1.028                      | 1,787,817.70               | 3,659,942.90          |
| <b>DIESEL FUEL</b>                      |                      |                           |                         |                            |                            |                       |
| Eastern Pacific (80%)                   | 11,527,227.04        | 1.44227                   | 16,638,221.04           | 1.128                      | 18,764,000.00              | 35,402,221.04         |
| Mediterranean (8%)                      | 643,728.48           | 1.44227                   | 928,346.22              | 1.072                      | 688,125.04                 | 1,616,471.26          |
| European Theater of Operations (8%)     | 643,728.48           | 1.44227                   | 928,346.22              | 1.028                      | 657,145.22                 | 1,585,491.44          |
| <b>AVIATION</b>                         |                      |                           |                         |                            |                            |                       |
| Eastern Pacific (85%)                   | 2,822,028.18         | 2.52704                   | 7,144,322.17            | 1.027                      | 7,314,627.23               | 14,458,949.40         |
| Mediterranean (8%)                      | 220,224.00           | 2.52704                   | 558,124.22              | .928                       | 187,221.70                 | 745,345.92            |
| <b>COAL OIL</b>                         |                      |                           |                         |                            |                            |                       |
| Mediterranean (100%)                    | 1,211,221.48         | 1.12228                   | 1,355,221.48            | 1.127                      | 1,522,221.48               | 2,877,442.96          |
| <b>TOTAL</b>                            | <b>42,278,221.20</b> |                           | <b>58,221,221.04</b>    |                            | <b>64,277,221.20</b>       | <b>112,500,442.17</b> |

REVENUE REPORT - TRANSPORTATION COSTS ESTIMATED

| <u>CATEGORY</u>                             | <u>FARE</u>   | <u>AVG. UNIT<br/>PRICE</u> | <u>VALUE OF<br/>FARE</u> | <u>TRANSPORTATION<br/>RATE</u> | <u>TRANSPORTATION<br/>COST</u> | <u>RELATIVE COST</u> |
|---|---------------|----------------------------|--------------------------|--------------------------------|--------------------------------|----------------------|
| <u>WORLD WIDE</u>                           |               |                            |                          |                                |                                |                      |
| <u>Atlantic Pacific</u>                     | 19,710,085.42 | 1.48                       | \$ 29,170,826.72         | 1.308                          | \$ 23,700,791.00               | \$ 24,001,712.71     |
| <u>Mediterranean</u>                        | 1,739,125.20  | 1.48                       | 2,573,905.20             | 1.91                           | 2,221,729.12                   | 2,803,634.02         |
| <u>European Theater of<br/>  Operations</u> | 1,742,125.20  | 1.48                       | 2,573,905.20             | 1.338                          | 3,194,312.12                   | 3,776,417.42         |
| <u>  <u>India</u></u>                       |               |                            |                          |                                |                                |                      |
| <u>Atlantic Pacific</u>                     | 11,857,897.44 | 2.19                       | 25,375,829.28            | 1.171                          | 12,933,076.04                  | 20,943,312.47        |
| <u>Mediterranean</u>                        | 642,752.48    | 2.19                       | 1,409,824.44             | 1.71                           | 1,129,221.22                   | 2,229,616.26         |
| <u>European Theater of<br/>  Operations</u> | 642,752.48    | 2.19                       | 1,409,824.44             | 1.844                          | 1,082,332.96                   | 2,492,153.48         |
| <u>  <u>China</u></u>                       |               |                            |                          |                                |                                |                      |
| <u>Atlantic Pacific</u>                     | 2,833,853.12  | 3.205                      | 12,191,477.64            | 1.022                          | 3,257,578.22                   | 14,079,054.47        |
| <u>Mediterranean</u>                        | 200,204.20    | 3.205                      | 641,824.70               | 1.494                          | 229,106.12                     | 949,722.22           |
| <u>  <u>Japan</u></u>                       |               |                            |                          |                                |                                |                      |
| <u>Mediterranean</u>                        | 2,211,251.44  | 1.42                       | 6,222,124.20             | 1.25                           | 5,229,622.20                   | 9,239,676.41         |
| <u>TOTAL</u>                                | 42,879,284.20 |                            | 79,970,544.28            |                                | 37,542,000.01                  | 127,112,122.00       |

| Year | Month | Day | Time  | Location | Remarks | Temperature | Wind | Humidity | Pressure | Clouds | Visibility | Other |
|------|-------|-----|-------|----------|---------|-------------|------|----------|----------|--------|------------|-------|
| 1951 | Jan   | 1   | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 2   | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 3   | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 4   | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 5   | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 6   | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 7   | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 8   | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 9   | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 10  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 11  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 12  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 13  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 14  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 15  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 16  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 17  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 18  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 19  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 20  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 21  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 22  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 23  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 24  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 25  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 26  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 27  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 28  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 29  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 30  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |
| 1951 | Jan   | 31  | 08:00 | ...      | ...     | ...         | ...  | ...      | ...      | ...    | ...        | ...   |

5





U. S. MARINE CORPS - TRANSPORTATION COSTS ESTIMATED

| <u>ROUTE</u>                        | <u>TONNAGE</u>       | <u>AVERAGE UNIT PRICE</u> | <u>VALUE OF FREIGHT</u> | <u>TRANSPORTATION RATE</u> | <u>TRANSPORTATION COST</u> | <u>ESTIMATED COST</u> |
|-------------------------------------|----------------------|---------------------------|-------------------------|----------------------------|----------------------------|-----------------------|
| <u>WESTERN PACIFIC</u>              |                      |                           |                         |                            |                            |                       |
| Western Pacific (85%)               | 18,720,000.00        | 1.22                      | \$ 22,838,400.00        | 2.204                      | \$ 49,884,084.00           | \$ 71,822,484.00      |
| Mediterranean (7%)                  | 1,739,125.20         | 1.23                      | 2,139,000.24            | 1.236                      | 2,154,212.01               | 4,293,212.25          |
| European Theater of Operations (7%) | 1,739,125.20         | 1.23                      | 2,139,000.24            | 1.189                      | 2,064,212.02               | 4,203,212.11          |
| <u>INDIAN OCEAN</u>                 |                      |                           |                         |                            |                            |                       |
| Western Pacific (80%)               | 11,507,507.64        | 1.84                      | 21,181,179.06           | 2.24                       | 25,588,219.71              | 46,769,398.77         |
| Mediterranean (5%)                  | 643,788.45           | 1.84                      | 1,184,810.05            | 1.181                      | 760,942.82                 | 1,945,752.87          |
| European Theater of Operations (5%) | 643,788.45           | 1.84                      | 1,184,810.05            | 1.036                      | 667,617.88                 | 1,852,427.93          |
| <u>PACIFIC</u>                      |                      |                           |                         |                            |                            |                       |
| Western Pacific (80%)               | 5,803,603.18         | 2.69                      | 15,611,472.60           | 1.997                      | 7,464,212.05               | 17,075,684.65         |
| Mediterranean (5%)                  | 200,204.93           | 2.69                      | 538,551.28              | 1.005                      | 201,205.22                 | 739,756.50            |
| <u>INDIAN OCEAN</u>                 |                      |                           |                         |                            |                            |                       |
| Mediterranean (100%)                | <u>2,211,651.63</u>  | 1.21                      | <u>2,676,098.50</u>     | 1.232                      | <u>2,767,601.23</u>        | <u>5,443,700.73</u>   |
| <u>TOTAL</u>                        | <u>42,873,326.20</u> |                           | <u>87,665,434.16</u>    |                            | <u>92,126,711.08</u>       | <u>150,798,245.72</u> |

LA CARIBBEAN (AMBA) - TRANSPORTATION UNIT ANALYSIS

| <u>UNIT</u>                          | <u>REVENUE</u>       | <u>AVERAGE UNIT PRICE</u> | <u>VALUE OF FREIGHT</u> | <u>TRANSPORTATION RATE</u> | <u>TRANSPORTATION COST</u> | <u>DELIVERED COST</u> |
|--------------------------------------|----------------------|---------------------------|-------------------------|----------------------------|----------------------------|-----------------------|
| <b>FUEL OIL SPECIAL</b>              |                      |                           |                         |                            |                            |                       |
| western pacific (80%)                | 18,719,085.62        | 1.88                      | \$ 28,228,900.80        | 2.888                      | \$ 48,178,816.84           | \$ 70,404,428.85      |
| mediterranean (7.5)                  | 1,739,125.80         | 1.88                      | 2,228,088.26            | 1.000                      | 1,801,933.71               | 4,027,813.97          |
| European Theater of Operations (7.5) | 1,739,125.80         | 1.88                      | 2,228,088.26            | .865                       | 1,674,777.87               | 3,900,897.83          |
| <b>1952</b>                          |                      |                           |                         |                            |                            |                       |
| western pacific (80%)                | 11,527,597.64        | 1.84                      | 21,321,179.66           | 2.051                      | 23,766,167.77              | 48,087,547.43         |
| mediterranean (2.5)                  | 643,756.45           | 1.84                      | 1,184,810.03            | .827                       | 806,761.30                 | 1,791,271.33          |
| European Theater of Operations (2.5) | 643,756.45           | 1.84                      | 1,184,810.03            | .862                       | 984,817.20                 | 1,739,427.13          |
| <b>1953</b>                          |                      |                           |                         |                            |                            |                       |
| western pacific (85%)                | 3,003,380.15         | 2.69                      | 10,231,472.65           | 1.721                      | 11,812,772.69              | 19,045,445.14         |
| mediterranean (10)                   | 800,404.90           | 1.69                      | 1,339,551.18            | .81                        | 162,165.87                 | 900,717.18            |
| <b>1954</b>                          |                      |                           |                         |                            |                            |                       |
| mediterranean (13)                   | 2,411,811.60         | 1.21                      | 3,521,740.50            | .92                        | 2,824,566.84               | 4,411,897.34          |
|                                      | <u>42,472,364.24</u> |                           | <u>67,600,634.16</u>    |                            | <u>82,433,364.24</u>       | <u>151,026,246.63</u> |

The Navy has no further information concerning sales to other customers by Caltex or Aramco or prices at which other producers were selling crude and refined products from the Persian Gulf area.

There is set forth herewith a copy of a letter, dated April 22, 1947, from Commander DRESCHER to Captain WOODWARD regarding delivery of crude oil to Argentina in 1946.

- "1. Two messages from Dshhnan under dates of August 10 and December 18, 1946, to the State Department indicated that the liftings of Arabian stabilized crude oil at 90¢ per bbl. with freight at 97¢ per bbl. were made for the account of Yacimientos Petroliferos Fiscales for delivery to La Plata, Argentina.
- "2. Mr. Miller of the office of the Washington representative of the Arabian American Oil Company was contacted by telephone at 1500 and 1700 on April 21 by CDR Drescher in connection with this matter.
- "3. CDR Drescher asked Mr. Miller if crude oil had been sold to Argentina at the price of 90¢ per bbl. Mr. Miller stated very definitely that no sales had been made to Argentina except on a delivered basis and that any information indicating that liftings F.O.B. Persian Gulf at the rate of 90¢ per bbl. were in error. Mr. Miller further stated that the Arabian American Oil Company did not consider that a delivered price could have a cost of transportation applied and thereby derive a F.O.B. price. Mr. Miller expanded on this statement indicating that the cost of transportation "is a variable figure dependent upon the type of vessel employed, whether it is privately owned, under time charter, under voyage charter, under U.S. Flag, under foreign operation, the desired financial return upon the vessel's use by the owner, and the possible collateral employment of the vessel in the particular service.
- "4. Mr. Miller was asked if he cared to advise the Navy of what the C.I.F. price of the crude oil delivered to Argentina was under the terms of the contract with Yacimientos Petroliferos Fiscales. Mr. Miller stated that it would be necessary for him to clear this matter with his New York office, and called CDR Drescher again at 1700 and stated that the Arabian American Oil Company desired to consider this contract price as confidential information, as their commercial business with Argentina was in competition with crude from this hemisphere and that the Arabian American Oil Company desired to limit its answer on this matter to the following statement: 'The only sales to Argentina were made on a delivered basis.'

\*5. Further information obtained from Mr. Miller indicated that negotiations for the Argentina deliveries started in March of 1946 and were concluded in a contract extending over a considerable period of time for the delivery of a total of four hundred thousand tons of crude oil. It is understood that the first two hundred thousand tons were quoted at a firm price and that the last two hundred thousand tons were to be delivered under an escalation provision based on the average postings of East and West Texas crude oils. Under this type of escalation Mr. Miller indicated that whatever the original contract price for the initial two hundred thousand tons would be that in view of the rise in prices of continental crudes, the price for the remaining two hundred thousand tons would have increased at least 50¢ per bbl.\*

There is set forth herewith in connection with the sale of fuel oil to Argentina the following communications from the Navy Department which are enclosed copies of the communications from the State Department files.

To: Cdr. C. G. Drescher, USN  
CINC Fuel Division  
Bureau of Supplies and Accounts  
Arlington Annex, Room 4535

18 April 1947

\*1. Pursuant to our telephone conversation of 14 April, there are attached copies of the two despatches received by State Department relative to sale of Middle East crude oil to Argentina at ninety cents per barrel.

\*2. Also attached is a copy of Arabian American Oil Company's letter of 25 April 1946 to UNREA. This is the offer to which Mr. Eakens, State Department, had reference, and is slightly different from his first recollection that it had been offered at ninety cents per barrel.

"J. L. BREMER, JR."

\* \* \* \* \*

INCIDENTAL TELEGRAM  
DEPARTMENT OF STATE

From: Bahrain  
Date: August 10, 1946

RESTRICTED

SECRET

\*Motor vessel JULIUS registered Kungsholms Sweden clearing Bas Tamará today for LaPlata, Argentina via Cape of Good Hope completely loaded with barrels 119,928.02 Arabian stabilised crude oil at 90 cents value \$107,935.22; freight at 97 cents value 116,330.18; total \$224,265.40. Purchaser Encinasas Petroliferas Fiscales Buenos Aires. Reported as largest crude shipment from Arabia.\*

WFO 46-1908

INCOMING AIRGRAM  
DEPARTMENT OF STATE

From: Bahrain  
Date: December 18, 1946

SECRET

WASHINGTON

"The Department may be interested to know that on December 18 the M. S. 'Julius', Swedish registry, sailed from Ras Tanura with a cargo of 16,441,766 metric tons of crude oil sold to Yacimientos Petroliferos Fiscales, Avenida Roque Saenz Pena 777, Buenos Aires for delivery LaPlata, Argentina. Price per barrel (42 U.S. gallons) U.S. \$0.90, cost of freight U.S. \$0.97.

"This is the fourth cargo to Argentina during 1946.

"Please send copy this airgram to American Embassy, Buenos Aires, and Caracas."

There is set forth herewith a memorandum dated April 16, 1947, from J. I. BREWER, JR., to Captain WOOD re Middle East Oil prices.

"1. In pursuing this subject the following were consulted:

Army-Navy Petroleum board  
Capt. J. K. BOYD, USN  
Lt. Col. R. C. WHIPPLE, USA  
Mr. PAUL A. BEST

Fuel Division, mSanda  
Cdr. C. G. HESCHER  
Mr. J. E. GILLINS

International Aid Division, mSanda  
Lt. J. E. FIRM, USN  
Mrs. L. A. HUBER

Department of the Interior  
Mr. J. H. HAYES, Office of International Trade

Department of State  
Mr. E. H. LARKS, Petroleum Division  
Mr. W. J. LEFF, International and Functional Intelligence  
Division

Former ANFB personnel:

Mr. E. P. LAVANAUGH

Mr. JOHN WALSTROM

Mr. J. R. KLANE

"2. Inasmuch as Navy contract prices for Middle East oil had already been obtained, efforts were primarily directed toward securing information with respect to prices at which Middle East oil was billed to the Navy under reciprocal aid provision of Lend-Lease, and prices at which other countries (particularly Britain) obtained oil from Middle East companies.

"3. The general pricing formula for spot deliveries of Middle East oil up to 1941 was the United States Gulf Coast price quotation for oil of comparable quality, plus freight costs from the Gulf Coast to the point of delivery of the Middle East oil. During the war, Middle East oil appears to have been sold in the Persian Gulf at approximately United States Gulf Coast prices, without regard to the freight costs from the Gulf Coast. This conclusion is supported by the accompanying schedule showing U.S. Navy contract prices, the U.S. Gulf quotations, and reciprocal aid prices. The schedule discloses that 1946 Navy contract prices are lower than the prevailing Gulf Coast quotations.

"4. No specific data is available with respect to prices at which the British Admiralty have obtained Middle East oil. Inasmuch as the British government has owned since 1914 a majority interest in the Anglo-Iranian Oil Company, it appears probable that the net price of oil to that government was lower than the price at which Middle East oil was obtained by the U.S. Navy under direct contracts or reciprocal aid. There appears to be a consensus of opinion that Anglo-Iranian oil has been furnished to the British Government at regular market prices, but that a system of periodic rebates has resulted in a much lower net price. Information on this subject has not been sought from the British Government or from Middle East oil companies.

"5. The only specific data discovered respecting prices of Middle East oil to other countries are two dispatches from State Department sources in Saudi Arabia advising of departures of the Swedish ship JULIUS with crude oil cargo destined for Bahiata, Argentina. Prices in terms of U.S. money were reported in the dispatches to approximate ninety cents per barrel for the oil and ninety-seven cents for transportation. These dispatches to State Department are identified as Cable 39 of 10 August 1946 and Airgram A-72 of

18 December 1946 from Dhahran. Copies have been requested from the State Department. Mr. R. H. Lakens of that Department is under the impression that an offer of oil at the same price of ninety cents a barrel was made to U.S.S.A. As this appears to raise a question regarding Navy purchases of crude oil for U.S.S.A. in October and December 1946 at prices ranging from \$1.12 to \$1.21 per barrel, I have informed Commander DEUSCHER, BuSanda, Fuel Division, and Mr. PAUL A. BEST, ABFE of the foregoing. Neither they nor Mr. J. E. HANCOCK, U.S.S.A., knew of any such offer, and were of the unanimous view that the prices in the Navy contracts were lower than those at which the oil was first offered in the negotiations. Mr. LAYENS expressed the opinion that the Navy contract prices were entirely proper in view of the fact that crude oil prices had increased considerably from April to October 1946 (1.12 to \$1.42) when the contracts were made. With reference to the sale of oil at ninety cents per barrel to Argentina, there also arises a question regarding Mr. DECK's statement that the Arabian-American Oil Company is not selling oil to anyone at a price lower than that which the Navy is paying. Commander DEUSCHER intends to pursue the matter when copies of the aforementioned dispatches are received. In this connection as with that concerning prices to the British, no effort has been made to secure information from representatives of the oil companies or of foreign governments.

6. Figures reflected in the accompanying Schedule of Comparative Prices were derived from schedules of Arabian-American Oil Company and California Texas Oil Company contracts with the Navy, submitted by the Distributing Division, BuSanda, from the schedule of U.S. Gulf price quotations submitted by the Fuel Division, BuSanda, and from the memoranda with the attached memoranda from the Foreign Accounts Division, BuSanda.

J. I. HENNER, JR.

\*P.S.

Mr. HANCOCK, U.S.S.A., has just located a letter from the Arabian American Oil Company to U.S.S.A., dated 25 April 1946 offering until May 3, 1946, to contract for crude oil at \$1.00 per barrel f.o.b. Basrah plus adjustment to reflect any changes in the U.S. Gulf price quotations twenty days before loading. A copy of this letter is attached hereto. This apparently is the offer to which Mr. R. H. LAYENS, State Department, had reference.

J. I. HENNER, JR.

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**\*SCHEDULE OF COMPARATIVE PRICES  
(per 42 gallon barrel)**

|               | (a) Navy Contracts<br>for Middle East Oil |                  |             | U.S. Gulf Coast<br>Quotations |                 |                   | (b) Reciprocal Aid<br>(Middle East Oil) |                  |
|---------------|---|------------------|-------------|-------------------------------|-----------------|-------------------|---|------------------|
|               | Grade                                     | Navy Fuel        | Navy Diesel | Grade                         | Navy Fuel       | Navy Diesel       | Navy Fuel                               | Navy Diesel      |
| July 1943     | \$  | .85              | \$1.25      | \$                            | \$1.05          | \$1.65<br>to 1.73 | \$                                      | \$               |
| July 1944     |   |                  |             |                               | 1.05            | 1.65<br>to 1.73   | .96                                     |                  |
| April 1945    |   |                  | 1.56        |                               | 1.05            | 1.65<br>to 1.73   | .85<br>1.08 (d)                         | 1.72 (d)         |
| August 1945   | 1.05                                      | 1.05             |             |                               | 1.05            | 1.85<br>to 1.73   | .85<br>1.06 (d)                         | 1.25<br>1.72 (d) |
| December 1945 |   | 1.05             | 1.68        |                               | 1.05            | 1.65<br>to 1.73   |   | 1.71 (d)         |
| April 1946    |   | 1.05             | 1.68        |                               | 1.05            | 1.73<br>to 1.94   |   |                  |
| October 1946  | 1.13<br>1.17 (c)                          | 1.05<br>1.17 (c) |             | 1.48                          | 1.26<br>to 1.46 | 1.94<br>to 2.19   |   |                  |
| December 1946 | 1.13 (c)<br>1.17 (c)<br>1.21 (c)          | 1.05<br>1.17 (c) | 1.68        | 1.75                          | 1.55            | 2.19              |   |                  |

**\*Footnotes:**

- (a) Contracts with Arabian American Oil Co. & California-Texas Oil Co.
- (b) Source - Sampling of UK reciprocal aid invoices to U.S. for oil from Anglo-Iranian Oil Co.
- (c) Higher price because of quality variation
- (d) These prices were estimated by Arms International Aid Officer, British Egypt, and were not supplies by issuing authority."

\*\*\*\*\*

ARABIAN AMERICAN OIL COMPANY

April 25, 1946

United Nations Relief & Rehabilitation Administration  
Mr. Witold Uderski  
Crafter Annex - Room #649  
1735 DeSales St., N.W.  
Washington, D.C.

Dear Sir:

With reference to our conversation yesterday, we offer you approximately 6,000 barrels per day, or 25,000 tons per month of stabilized arabian crude oil for delivery f.a.s. Ras Tanura, Saudi Arabia, during the period June to December, 1946, inclusive.

This crude oil will have a gravity of 34.0 to 38.9 but will probably come within the lower range of these gravities. Our price will be \$1.00 U.S. currency, per barrel for 34.0-34.9 gravity oil with 2¢ per degree additional for gravities higher than this. Also, this price will be increased or decreased with the average change in the posted well prices for East Texas and West Texas crude oils 20 days before loading. For your information, the price for East Texas crude, today, is \$1.35 per barrel and the price for 34.0-34.9 West Texas crude oil at the well is \$1.10 per barrel.

If our offer is satisfactory to you, we would expect to enter into a contract setting forth the arrangement in greater detail. Naturally, liftings would be in cargo lots on a mutually satisfactory schedule. This offer is good for acceptance until the close of business on May 3, 1946.

If there is anything about this offer which you do not understand or if you have any matters which you would like to discuss with us, please let Mr. Barthelme know and he will be glad to come and see you.

Very truly yours,

ARABIAN AMERICAN OIL COMPANY

~~W. D. Smith~~  
Manager of Sales

## F. NAVY PERSONNEL ESTABLISHING SPECIFICATIONS

Captain E. L. WOODHARD furnished the names of the following Navy officials who participated in the establishment of quality specifications for Navy special fuel oil procured under the 14 contracts:

Captain W. C. LATOUCHE, USN  
 Commander J. C. RADFORD, USN  
 Commander H. P. GALINDO, USNR  
 Commander W. N. SAUNDERS, USN  
 Lt. P. L. LATOUCHE, USNR  
 Lt. R. H. PHILITE, USNR

## G. GOVERNMENT OFFICIALS CONNECTED WITH CONTRACTS

Captain E. L. WOODHARD stated that A. A. MACKRILLE was formerly a Commander in the Navy Department and was in charge of the purchase section of the fuel division of the Bureau of Supplies and Accounts. He stated that one of MACKRILLE's duties was to negotiate with the oil companies regarding the purchase of oil with the United States Navy. He stated that at the time the contracts were entered into with the California Texas Oil Company and the Arabian American Oil Company the Navy was in dire need of fuel oil for ships in the Middle Eastern area and the Western Pacific. He stated there was a shortage of fuel oil at that time and it became necessary to purchase oil from the Middle Eastern area. He stated the purchases were made by the Navy on a negotiated price contract and the oil companies based their prices on the prevailing market price. The prices as set by the oil companies were not based on their cost of production. He stated that the position formerly held by MACKRILLE is now held by Commander JAMIE WELSHAKE. MACKRILLE at the present time is employed by the Shell Oil Company and resides at 315 East 68th Street, New York City.

In his testimony before the Senate Committee to Investigate National Defense MACKRILLE stated that he had been employed by the Shell Oil Company since 1946 and he served in the United States Navy from May 1942 until September 10, 1945, at which time he returned to his position with the Shell Oil Company. MACKRILLE stated that he received instructions as to the amount of oil he was to purchase for the Navy from the fuel division in the form of a requisition. When this requisition was received, he proceeded to call in the contractors and negotiate with them for the oil. Prior to the first contract with the Navy, MACKRILLE testified that in order to satisfy himself that the \$1.05 asked by the Arabian American Oil Company was a fair price, he would go to whatever agencies he could, principally the Petroleum Administrator for War, and try to find some background concerning oil prices. He stated that at the time he made this original contract with the Arabian American Oil Company, he had not heard that this same oil had been offered to the Navy in 1941 and that the Navy refused to accept the oil because of its quality. The first time he heard of this particular offer was during

the past year when he read of the offer in the press. MacKILLIE stated he did not know anything of the cost factors at the time he negotiated for the contract. He stated he had asked the contractor to tell him how much the cost of production was and was informed by the officials of the Arabian American Oil Company that the information was not available and it would be impossible to furnish the Navy a figure. The reason given for the impossibility, according to MacKILLIE, was that the company had put so many millions of dollars into Arabia that the costs of doing business were so indefinite that no accurate figure or cost data could be furnished. He stated this conversation was with a Mr. DENHAM of the Arabian American Oil Company. MacKILLIE stated that the company offered to furnish the oil to the Navy for a price of \$1.05 per barrel and after much negotiation due to the fact that the Navy had to have this oil, the offer of the Arabian American Oil Company was accepted. He stated he was informed by a Captain BUTTER that he had to make the contract as the Navy had to have the oil. The price had to be approved by the Undersecretary of the Navy and not by Captain BUTTER or MacKILLIE.

There are being transmitted herewith to the Bureau two copies of contract No. W33n-11-10985, dated July 21, 1945. To this contract is attached justification which is being set out herewith as a pertinent part of said contract.

\*Clearance No. 12412

\*JUSTIFICATION:

\*1. Buying Officer: The subject award was negotiated by Comdr. A. A. MacKILLIE, Fuel Section, Commodity Purchase Branch.

\*2. Source: Contractor was designated as supplier by RF-1 with deliveries to be scheduled under Lend-Lease to France.

\*3. Price: (a) There are no current quotations formally offered by others for Arabian crude oil at this time. Discussions were held with Mr. J. HENIS, Assistant to the President of Asiatic Petroleum and Mr. GIFFIN, Vice President of the Marine Department of Shell Oil Co. with the view of developing price information on British controlled Arabian crude, statement was made by Mr. HENIS that the British would base the value of such crude f.o.b. vessel Iraq/Iraq on U.S.Gulf seaboard price for a comparable quality crude. From a quality standpoint, 35/35 A.P.I. gravity West Texas crude has similar characteristics to Arabian crude, and the cost of such crude f.o.b. U.S.Gulf ports would approximate \$1.17 to \$1.19 per barrel based on \$1.02 at the well plus an estimated \$0.17 to \$0.19 covering gathering, transportation and terminaling charges at seaboard. Contractor's quotation apparently is based on a price of \$1.02 at the well; however, gathering, transportation and terminaling at the seaboard (approximately 40 miles from the producing field) would add \$0.17 per barrel.

"(b) Conference was held with various executives of the parent companies, The Texas Company and the Standard Oil Co. of California in order to obtain full information prior to award. This group consisted of Mr. W.S.S. ROGERS, Chairman of the Board of Directors and Mr. A. C. LONG of the Executive Sales Department of the Texas Company, Mr. J. E. HALL, Manager of the Export Department of the Board of Directors of the Bahrain Petroleum Company, Mr. FRED JAVIER, President of Arabian American and Mr. H. G. BROWN, Sales Manager of the latter company. This group stated that they considered its original pricing of crude oil for 100 Octane Aviation Gasoline for USC a reasonable and adequate justification for contractor's quotations to Navy, particularly since current royalties to the King of Arabia are now totalling approximately \$0.42 per barrel as compared to the former \$0.21 per barrel applicable during the period of negotiations of the USC contract. In addition, it was reported that considerable pressure is being placed on Arabian American to further increase such royalties.

"(c) Claim is made by contractor that it is giving Government the benefit of its established inter-company sales price, specifically the price at which Arabian American sells crude to Bahrain Petroleum. A review of P&N's file on the Bahrain Petroleum/USC contract for 100 Octane Aviation Gasoline appears to confirm this statement, as Bahrain included in its costs for the gasoline a crude value of \$1.02 at the well.

10. Price Analysis: The only crude oil price analysis available from contractor is the data supplied P&N in the negotiations for Bahrain Petroleum's sale of 100 Octane Aviation Gasoline to USC. As this was the subject of dispute between Government and Bahrain over a period of several months, copies of those pages containing data pertinent to crude oil evaluation were extracted from the 'Cost analysis and breakdown' file on Bahrain Petroleum and consist of the following:

Enclosure (A) - Bahrain Petroleum's letter of 28 January 1943 to P&N, File 75184, Pages XIII-23-24-25-26.

Enclosure (B) - Extracted pages from P&N's 'Memorandum of Recommendation' for aviation gasoline contract with Bahrain dated 9 March 1943, File 75184, pages XIII-50-51-52. Data pertaining to crude oil begins with the fourth paragraph on page XIII-50.

Enclosure (C) - 'Elements of Cost of Government of 100 Octane Aviation Gasoline' File 75184, page XIII-53.

"It will be noted in enclosure (B) that PAN refused to accept Bahrein's crude valuation of \$1.02 per barrel covered by Enclosure (A), and recalculated net materials cost to reflect a base price of \$0.34 per barrel. Bahrein similarly refused to accept PAN's crude valuation and finally after several months negotiation, a compromise was reached with in fact sidestepped the issue of crude valuation by agreement between the parties to increase another cost factor ('Contingencies') from \$0.005 to \$0.0125 per gallon equal to \$0.315 per barrel on finished 100 Octane aviation gasoline. In this connection, attention is directed to Enclosure (C), particularly to the second column of figures covering Bahrein's cost data of 4 February 1943 and the third column headed 'PAN Approval' (contract eventually was written on the basis of \$0.1375 per gallon).

"A comparison of the two columns of figures shows the following:

- (1) All items of expense are identical except 'Net Petroleum Materials Cost' and 'Contingencies'.
- (2) PAN reduced by \$0.01107 cents Bahrein's claimed amount for 'Net Petroleum Materials Cost'. This reflects a base price of \$0.34 barrel for crude f.a.s. Basrah as compared with Bahrein's \$1.045 (\$1.02 at well plus \$0.025 pumping and loading at Basrah).
- (3) PAN increased by \$0.0075 Bahrein's claimed amount for 'Contingencies'.
- (4) The net reduction in the total price requested by Bahrein vs. the total approved by PAN is only \$0.00357 per gallon.

"In discussing the foregoing with contractor and PAN, neither will admit a change in their respective original premises on crude oil valuation and state that the concessions made by each in finally agreeing on a price of \$0.1375 for the gasoline were not traceable to crude oil.

"5. Verbal Approval: Verbal approval was obtained from OPM.

**RECOMMENDATION:**

"The subject award is recommended by the Fuel Section, Commodity Purchase Branch, in accordance with the request of W-1."

According to the files of the Interior Department, GEORGE LEIGH PARKHURST entered on duty as chief of the New ~~Qualifications~~ Section, Reference Division, Petroleum Administrator for War, on December 20, 1941, at a salary of \$6500 a year. Prior to the time that he was employed by the Petroleum Administrator for War, PARKHURST was employed by the Standard Oil Company of Indiana from 1927 to 1941. Upon his resignation from this government employment, he returned to the Standard Oil Company of Indiana. He is presently residing at 6806 Grandon Avenue, Chicago, Illinois.

In the memo from the Department one Val JAY is mentioned as employed by a government agency with whom MACKELLIE may have discussed oil prices prior to the consummation of the contract with the Arabian American Oil Company. The files of the Interior Department reflect one FREDERICK MAXWELL JAYNE was employed as a principal cost analyst at a salary of \$4600 per annum in the office of the Petroleum Administrator for War from January 18, 1943 to February 26, 1946. From 1934 to 1942 JAYNE was employed by the Standard Oil Company of California and upon his resignation from the Petroleum Administrator for War on February 22, 1946, he returned to his old position with the Standard Oil Company of California, 225 Bush Street, San Francisco.

The Mr. FITZGERALD mentioned in the Department's memo is probably identical with one MAURICE BROOKS FITZGERALD who was employed in the Petroleum Administrator for War's office from May 26, 1942, to March 15, 1945. From 1929 to 1935 FITZGERALD was employed by the Standard Oil Company of New Jersey. Upon his resignation in 1945 FITZGERALD returned to the Standard Oil Company of New Jersey and is reported to be presently residing and working at Billings, Montana.

No record could be found in the Department of Interior files of the employment of a Mr. TATE, Mr. RICHARD or Mr. MOTTGER. Additional efforts will be made to locate and identify these individuals.

Captain E. L. WOODWARD stated that Captain A. H. BUTTER is presently residing in El Paso, Texas. He stated he is now president of the Butter Oil Company, 907 Baltimore Street, El Paso, Texas. Captain WOODWARD stated that Navy files failed to reflect any information concerning a statement by Captain BUTTER that the products involved in contract #5ax-II-10985 were urgently needed.

Captain WOODWARD furnished to this office the following letter addressed to Captain CHESTER C. WOOD from Admiral H. D. BURNER, who is presently residing at 310 West 44th Street, New York City, New York.

12 May 1947

"Dear Gert;

"Your letter of 8 May has reached me - and I have been probing my memory on American Arabian Oil. You will appreciate that records are not available to me - and that I am relying on recollection only.

"I distinctly recall the two meetings you mention between officials of the company and myself.

"(a) Mr. J. T. DUCK came to see me during the summer of 1945 (date not recalled). His principal mission was to seek the Navy's assistance in obtaining food and supplies for the maintenance of his construction forces in the area of the Persian Gulf. I have no recollection of any talk on price or contract terms. I do recall discussion of the potential value to the Navy of additional sources of oil supply. It is entirely possible that Mr. DUCK stated the desire of the company to sell to the Navy at prices not greater than we paid elsewhere. However, the discussion centered about the provision supply problem - and I recall no price discussion. It was decided that the Navy could take no action in supplying materials to the company and that Mr. DUCK would seek elsewhere for assistance.

"(b) My recollection of the later meeting between company officials Lt. WALKER and myself is in complete agreement with WALKER's story to you. I do not recall specific prices originally tendered - but do remember an attempt to tie in to U.S. Gulf prices. Since this approach did not reflect any direct relation to Arabian American costs or profits it was rejected and the company agreed to firm prices. My recollection is that these prices were considerably lower than the U.S. Gulf prices.

"One other meeting took place when I talked to officials of the Arabian American Co. This occurred in the late fall of 1946 when Carl Brecher was at an impasse with the company on the same issue. The Company wanted U.S. Gulf prices - BRECHER held out for a lesser price. Finally BRECHER brought an officer of the Company (not Mr. DUCK) to see me. At once the company receded from its position and accepted a contract at a lower price. Again I can not quote specific prices - but my recollection is that the contract price reflected a saving of some sixteen million dollars over the company's asking price. BRECHER can give you full details.



"Other than the above, I have no memory of the Navy's dealings with Arabian American and Cal Tex Oil Co.

"Sincerely

H.D. MOORE /s/

Captain MOORE stated that on October 22, 1947, he wrote the following letter to Mr. FRED COUGHLIN of the Special Committee Investigating the National Defense Program setting forth examples of the billing of oil at the Persian Gulf.

"Dear Mr. Coughlin:

"In response to your verbal request for information concerning the price of reverse lend lease oil supplied by the British from the Persian Gulf to the United States, the comments below are submitted.

"Due to the accounting methods in effect in the supply of reverse lend lease oil the figures on the cost of British oil supplied in the Persian Gulf are somewhat confusing. In certain cases, fuel delivered at Abadan was invoiced there at a certain definite price per barrel. In other instances, it appears that fuel was issued under an invoice which gave only the quantity delivered. In these latter instances, the invoices were sent to the Area International Aid Officer in British Egypt who assigned estimated prices per unit quantity based on his knowledge of the market situation. We thus find a situation in which oil lifted in the Persian Gulf during any one month was billed in the Persian Gulf at \$.85-.95 per barrel and in the Egyptian office at about \$1.06. The following examples are cited as typical of this situation.

|             | A      | B       |
|-------------|--------|---------|
| July 1944   | \$ .96 | \$ 1.06 |
| April 1945  | .85    | 1.06    |
| August 1945 | .85    | 1.06    |

\* Prices in column A reported by Inspection District Abadan, British Iran.

\* Prices in column B were estimated by Area International Aid Officer, British Egypt, and were not supplied by issuing authority.

"Trusting that the above information is satisfactory for your purposes, I am

"Cordially yours,

HENRY L. MOORE  
Captain, USN

Captain WOODYARD stated when this letter was presented into evidence it was misinterpreted to indicate that deliveries by Great Britain to the United States Navy of oil were made at 58¢ a barrel under reverse lend lease. He was therefore forced on October 31, 1947, to write an explanatory letter to the Committee which letter is as follows:

"Dear Mr. Coughlin:

"In my letter to you of October 22, 1947, I submitted a brief statement regarding reverse lend-lease oil supplied by the British from the Persian Gulf to the United States. I should like to amplify that statement at this time.

"The Navy has no bonafide data as to the amount of any payments made by the United Kingdom to the Anglo Iranian Oil Company for deliveries made by that company to the Navy on account of Reverse Lend-Lease. These Reverse Lend-Lease deliveries were billed in quantities only with the prices subject to later statements by the British Government.

"For accounting purposes the Navy applied estimated values and in many cases this was done long subsequent to the date of delivery. In fact, due to the absence of pricing data on Reverse Lend-Lease items, the Navy found it necessary to assign Area International Aide Officers to many foreign countries. The object of this duty was to expedite the development of Reverse Lend-Lease data and to establish the best possible prices to be applied thereto for reporting purposes. The price data supplied was in no case actual nor official insofar as further negotiations with the British were concerned. The prices, however, were used as a reporting basis on Reverse Lend-Lease transactions. The Reverse Lend-Lease reports were made to the State Department where composite statements of the various Lend-Lease and Reverse Lend-Lease transactions were formalized for use at a later date in negotiating a settlement of accounts between the several governments.

"The prices listed as furnished by the Area International Aide Officer, British Egypt, for fuel oil lifted at Bahrain and Abadan and set forth on enclosure are qualified as to their accuracy. For the reasons set forth, it is obvious that these prices cannot be supported by authenticated documents confirming any payments to the Anglo Iranian Oil Company.

"In conclusion, it is desired to iterate that there is no information available to the Navy Department as to the payments made by the British to the Anglo Iranian Oil Company for oil furnished by that company to the Navy as Reverse Lend-Lease."

W. L. WOODYARD  
Captain, USN

\*Price per Bbl. of Navy Special Fuel Oil Transferred to U.S. Navy  
under Reciprocal Aid by United Kingdom

\*Supplies Lifted at Bahrain and Abadan

\*Reported from British Egypt by Area International Aid Officer

| <u>Bbl.</u> | <u>Price</u> | <u>Price per Bbl.</u> | <u>Date</u> |
|-------------|--------------|-----------------------|-------------|
| 102,113.7   | 110,337.35   | 1.08                  | April 1945  |
| 105,486.6   | 114,479.80   | 1.085                 | April 1945  |
| 104,696.8   | 112,546.51   | 1.0753                | April 1945  |
| 103,601.3   | 112,662.86   | 1.0874                | May 1945    |
| 97,465.2    | 102,969.06   | 1.0564                | July 1945   |
| 113,977.4   | 120,333.08   | 1.0557                | July 1945   |
| 97,674.9    | 103,197.34   | 1.0565                | July 1945   |
| 99,313.22   | 105,597.97   | 1.063                 | Aug. 1945   |
| 103,333     | 107,876.38   | 1.063                 | Aug. 1945   |
| 97,688.78   | 103,351.99   | 1.057                 | Sept. 1945  |

"Prices used herein are estimated and were not supplied by the issuing authority. Estimated prices are the prices advised used by the British Ministry of Fuel and Power in evaluation of Reciprocal Aid cargoes of like or similar fuel at Abadan and Bahrain during the 3rd quarter of 1944. Ref: U.S.N.S. & D.O. Office, Memo A16-4 Serial 119/45 dated 9 May 1945."

Captain WOODYARD stated he does not know whether the second letter was ever used as evidence or whether any explanation was made of the first misinterpretation.

#### R. NATURE AND EXTENT OF RENEGOTIATION

A Mr. BAREER, first name unknown, telephonically communicated with the Navy Department to state that from a review of the contracts it appeared that only one contract, namely for finished products of \$3,763,000, would be subject to renegotiation. The other contracts were either for crude oil or delivery subsequent to the renegotiation time limit. Captain WOODYARD furnished the following memorandum from Commander H. E. FOX, JR., concerning this renegotiation:

\*1943 - ANPB approved construction of the 50,000 barrel refinery in the vicinity of Ras Tanura, Saudi Arabia, to process Arabian crude oil. 80 All Purpose Gasoline, Navy Diesel, and Navy Special Fuel Oils were to be manufactured. Entire output would be purchased by the U. S. Navy for its own and its allies' consumption.

\*1943 to 1945 - With the first arrival of Naval officers in the Middle East in early 1943, studies regarding the quality of product from Arabian crude oil were commenced. All during 1944 and 1945, a comprehensive series of investigations, both in the Middle East and in the United States, was carried out to ascertain the products specifications for the Ras Tanura project which would permit the use of these products in the Pacific War Theatre. These investigations involved the exchange of many samples, usually by air, over the 10,000 miles that separated the two areas. The work was done at the insistence and the sponsorship of the Navy, to assure that the refinery products could be utilized. All these investigations were concluded satisfactorily.

\*1944 - Actual field construction was commenced in Saudi Arabia in late 1944. The U. S. Navy sent a liaison officer to the Middle East, in addition to the inspection officers already present, to assist the Arabian-American Oil Co. as well as the Bahrain Petroleum Petroleum Co. and the Anglo-Iranian Oil Co. in refinery construction and operation problems. The ANPB by letter of 14 July 1945, requested semi-monthly progress reports in addition to numerous periodic reports of Arabian-American construction projects in Saudi Arabia. Reports by the Bureau of Ships Naval officer inspection personnel on the spot were prepared and submitted. A review of these reports reveals that Arabian-American did a commendable job of construction and took (full) advantage of the high priority shipments of materials to the Middle East.

\*October 1945 - The first Ras Tanura refinery processing units commenced operations.

\*December 1945 - The first tanker deliveries of finished products to the U.S. Navy were completed and shipments were made to Western Pacific areas.

\*During the period of November 1944, to date, the cooperation exhibited by the Arabian-American Oil Co. to the U.S. Navy as well as to the British Navy and the Anglo-Iranian Oil Co. is known, by personal observation, to be of the highest order. At no time were misrepresentations made.\*

No further information is contained in the Navy Department files. Additional efforts will be made to obtain further information from the Reconstruction Finance Corporation.

#### V. MISCELLANEOUS

Captain WOODWARD stated there was no information in the Navy Department files concerning the terms of agreement between the Anglo-Iranian Oil Company Limited and Bahrain Oil Company concerning war time operations of refineries of the two companies.

Captain WOODWARD stated that with reference to the alleged representations by oil company officials that royalty payments have been increased to 42¢ per barrel and that the Saudi-Arabia government was pressing for larger royalties, this was probably a misinterpretation on the part of some individuals. However, there was no information in the Navy Department files concerning this representation. Possibly some information might be in the hands of the Special Committee to Investigate National Defense.

Captain WOODWARD stated that in so far as he knew, there was no disagreement between the King of Saudi-Arabia or any officials of that government and oil company representatives with reference to increases in the royalty payments. He stated that the Navy Department files contained no information concerning any disagreement.

[REDACTED] Arabian American Oil Company from 1943 to date, together with any review of operations of Caltex and Bahrain Petroleum Company have been requested of the Bureau.

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In the memo from the Department it was requested that investigation be made of certain phases of the letter written January 26, 1946, by JAMES HENRY J. [REDACTED] to another company official. It was requested inquiry should cover the nature and extent of Arabian American Oil Company contracts for 1946 with a view of determining to whom the letter referred as a source of embarrassment. This memorandum requested also the extent to which expenses were allocated to 1946 rather than to other years. The letter referred to is apparently among the exhibits maintained in the office of the Special Committee to Investigate National Defense. At the present time this testimony is in the process of being printed and the exhibits as yet have not been made available. As soon as these exhibits have been printed, efforts will be made to obtain a copy of the original letter.

As a matter of information there is being set out herewith a letter from J. A. MOFFETT to the Envoy Extraordinary and Minister Plenipotentiary of Saudi-Arabia, dated February 18, 1946, and a letter to the Minister of Saudi-Arabia, dated February 26, 1946, from J. A. MOFFETT. There is also

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set forth the reply to Mr. KOFFERT, dated March 2, 1946.

February 18, 1946

His Majesty Extraordinary and Minister Plenipotentiary  
of Saudi Arabia to the United States  
Saudi Arabian Embassy  
Washington, D. C.

Your Excellency:

I beg to submit for consideration of His Highness, King  
Ibn Saud, the following:

1. You now receive under original contract with the  
Standard Oil Company of California a royalty based at four (4)  
gold shillings per ton, which today amounts to roughly 22¢ U.S.  
currency per barrel of oil produced.

2. You have been advanced royalty payments of approximately  
ten million dollars, which would cover payment in advance of some  
50,000,000 barrels of oil in the ground.

I now wish to propose the following for your consideration:

1. Instead of taking payment on the basis of 22¢ per barrel  
that you take the oil on this basis: Within one year I will agree  
to purchase the oil from you on the basis of 44¢ per barrel with a  
minimum of 20,000 barrels per day and a maximum of 50,000 barrels  
per day.

2. I will agree to pay in addition 10¢ per barrel for the  
oil delivered aboard ship; also to pay to you an export tax of six  
cents per barrel, or a total of sixty cents per barrel.

3. You will arrange for delivery of oil to me, through the  
existing pipe lines of the Standard Oil Company and ten cents  
(10¢) should cover the cost and give them a profit.

In conclusion it would be my earnest desire to pay you an  
export tax of twenty cents per barrel instead of six cents. This  
would be dependent on the competitive attitude of the British  
owned oil companies but it is my firm belief this could be  
accomplished.

"For further consideration you have under International Law the right of condemnation or expropriation of the oil properties on the basis of their book value. As a rough estimate I assume at the present time a book value of sixty million U.S. dollars. You might wish to pay them a good will item of ten or fifteen million dollars but you are not obligated to do so.

"Assuming it would take seventy five million dollars, it would be my idea to raise one hundred to two hundred million dollars, you to have a 49% interest in the company.

"Under this plan it would be a joint operation, the royalty payments would cease or be very materially reduced, the export tax would continue.

"It would be easy to expand the production and operation to 150,000 to 200,000 barrels per day and I figure that a normal operation would earn between 75¢ to \$1.00 per barrel which on the basis of 100,000 barrels per day would equal \$36,000,000 per annum; on 200,000 barrels per day, \$72,000,000 or a profit to you of from \$18,000,000 to \$36,000,000 per annum; in addition you would receive the export tax.

"Today they are producing 65,000 barrels per day and your royalty income amounts to \$264 per ton on roughly 9000 tons or \$4,500 per day, or roughly \$1,800,000, or less than 10% of what you would receive.

"It is my desire to work out a sound honest proposition for you and to make money for myself and associates for financing and operating this partnership.

"With my highest esteem, I am

"Sincerely

J. A. Moffett

"P.S. Naturally it is understood, if oil was purchased, Property would be required in Arabia, so that a refinery and storage tanks could be constructed.

J. A. M."

\*\*\*\*\*

February 26, 1946

His Excellency, Sheikh Asad Al Fagih  
Minister of Saudi Arabia to the United States  
Saudi Arabian Embassy  
c/o Sheraton Hotel - Apartment 150-6  
Washington, D. C.

Your Excellency:

Please accept my thanks for the courtesy which you extended to me last Saturday in granting me the opportunity to present my proposition.

I am writing to clarify my letter which I left with you, as follows:

1. The item of Book Value included the Bahrain properties, so the investment in Arabia is less than the figure stated and could easily be ascertained from the books of this company.
2. It is my desire to offer to the Sheikh of Bahrain a similar proposition on the basis of ex-appropriation but this is impossible as he has no direct representative here and all deals would have to be made through the British and they would never permit a liberal offer of this kind to come to their attention. Therefore, you may wish to convey this information to him.
3. The Standard of California and the Texas Company have recently discovered a large oil field in Sumatra in the Dutch East Indies. Therefore it will be necessary for them to hold back the production at Arabia, which in turn will limit the revenue of the King.
4. The British are now trying to arrange a treaty with the oil men in the United States to limit the amount of oil to be produced, and this includes Arabia. This would be against the interest of the United States of America and Saudi Arabia. I am pretty sure, however, that this agreement will not be approved by our Congress and Senate.

In conclusion, may I say that under my proposal the sole interest will be in the operation of Arabia, to secure a maximum outlet and maximum revenue for the King, and will not be influenced by having ownership in properties in other parts of the world, for which an outlet is needed, which, necessarily holds back the Arabian oil.



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"It is unnecessary for me to say that should my offer become known to the interested parties every manner of pressure would be used against me to stop such a deal, even to the extent of attempting to buy me off, which can not be done.

"The next several months will play an important part in securing the best position possible. Therefore, I trust that I will hear from you in due course as to whether or not my offer is of interest. If so, the Finance Ministers should return here with you so that proper arrangements can be made as to financing not only this proposition but, in addition, to discuss ways and means whereby the advances made to the King can be paid off by him and necessary funds to be made available as quickly as possible.

"With my highest esteem and kindest regards, I remain

"Yours respectfully,

J. A. Moffett"

\*\*\*\*\*

"March 2, 1946

"Mr. J. A. Moffett  
4 East 72nd Street  
New York 21, New York

"Dear Mr. Moffett:

"Thank you for your letters of February 18 and 26, and for your interest in my country, Saudi Arabia. I am taking this opportunity to assure you that the relations between the oil company and Saudi Arabia are extremely satisfactory and I feel it would be most unfair to interfere in any manner which would cause the discontinuance of existing pledges. In addition, I can see no reason for my Government's expropriating the Arabian American Oil Company in view of its continuing cooperation with both the Government and the people of Saudi Arabia.

"With kindest personal regards, I remain

"Very truly yours,

Abd al-Fatih  
Minister"

There are being set forth herewith the names and addresses of those persons testifying before the Special Committee to Investigate National Defense as it may become necessary to interview them:

JAMES A. HOFFETT, 4 East 72nd Street, New York 21, New York  
WILLIAM S. S. ROZKERS, Chairman of the Board, Texas Company,  
New York City  
JAMES TERRY DEWE, Vice President, Arabian American Oil Company,  
200 Bush Street, San Francisco, California  
CARL H. BERGMAN, Comptroller, Arabian American Oil Company,  
200 Bush Street, San Francisco, California  
R. M. HERRON, Chairman of the Board, Bahrain Petroleum Company  
Limited and California Texas Oil Company Limited, New York City  
FRED A. DAVIES, Vice President, Arabian American Oil Company,  
Berkeley, California  
B. C. DEEMAN, Sales Manager, Arabian American Oil Company,  
New York City  
D. E. BOHENSCHWITZ, Assistant Manager, Export Department, General  
Petroleum Company, 106 West Second Street, Los Angeles, California  
A. A. MACRILLIE, 315 East 62nd Street, New York City, employed by  
Shell Oil Company

**ENCLOSURES TO THE BUREAU:**

Two photostatic copies of the following:

Arabian Oil report prepared by Commander CARL G. HERRON,  
Imports Nos. 3522, 3522A, 3522B, 3522C of the U.S. Navy Boiler  
and Turbine Laboratory, Philadelphia.  
Report No. 3771 of the U.S. Navy Boiler and Turbine Laboratory,  
Philadelphia.  
Tanker loading reports of Bahrain Island, Persian Gulf.  
Contract No. E55a-11-10-85.  
Map showing price comparison of petroleum products.  
Chart showing crude oil production of Arabian American Oil Company.  
Chart of world market crude prices.  
Map showing comparative oil output and reserves.  
World petroleum oil map 1942, Near and Middle East.

P E N D I N G

## LEADS

## THE BALTIMORE DIVISION:

At Wilmington, Delaware will ascertain the facts concerning the incorporation of the California Texas Oil Products Company in January 1947 under the laws of Delaware.

## THE BUTTE DIVISION:

At Billings, Montana will interview MAURICE BROOKS FITZGERALD employed with the Standard Oil Company of New Jersey and ascertain from him complete details of any contacts made by him with Commander MACKILLIE concerning Arabian oil prices. These contacts were made sometime prior to July 1945. It is to be noted that FITZGERALD is reported to have resigned in March 1945 from the office of the Petroleum Administrator for War.

## THE CHICAGO DIVISION:

At Chicago, Illinois will interview GEORGE LEIGH PARKHURST, 6806 Cranston Avenue, who was employed in the office of the Petroleum Administrator for War from December 1941 to August 1945 and ascertain from him what part he took in any negotiations between the Arabian American Oil Company and the United States Navy or the California Texas Oil Company and the United States Navy regarding the purchase of oil. He should particularly be questioned regarding any discussion he may have had with Commander MACKILLIE regarding Arabian oil prices just prior to July 9, 1945.

## THE EL PASO DIVISION:

At El Paso, Texas will interview A. W. MUTTER, at the Mutter Oil Company, 907 Baltimore Street. MACKILLIE testified that MUTTER as a Captain in the Navy had stated that the products involved in contract #Max-11-10985 were urgently needed. Captain MUTTER should be interviewed concerning this statement and full facts obtained from him.

## THE LOS ANGELES DIVISION:

At Los Angeles, California will interview D. C. HORNISCHTATZ, General Petroleum Company, 108 West Second Street, who was formerly petroleum products negotiating officer of the Bureau of Supplies and Accounts, U.S. Navy from 1943 to 1946. He should be thoroughly interviewed as to his part in negotiating the contract with the Arabian American Oil Company and also his part in negotiating for purchase of oil from the California Texas Co. Particular attention should be paid to any statements made by the oil company officials in this negotiation to the effect that the royalty would be 4.5¢ per barrel and the circumstances surrounding such statements.

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**THE NEW YORK DIVISION:**

At New York City, New York will interview W. H. HERRON, Chairman of the board of Bahrain Petroleum Company, Ltd., and California Texas Oil Company, Ltd., concerning the terms of an agreement made between the Anglo-Iranian Oil Company, Ltd., and the Bahrain Oil Company regarding oil time operations of the refineries of the two organizations. It has been alleged that a provision of the agreement is that prices quoted by Bahrain should cause Anglo-Iranian to suffer a loss on that cargo, Bahrain would make up that loss.

Will interview A. A. MacKILLIE, 315 East 68th Street, New York City, now with the Shell Oil Company and formerly officer in charge of the purchase section, fuel and lubricants, Bureau of Supplies and Accounts, U.S. Navy, concerning his part in the negotiations for the original contract with the Arabian American Oil Company, and obtain from him full details concerning said negotiations, both with the Arabian American Oil Company on their first contract and any subsequent contracts. Will also interview him regarding the details of negotiations in which he might have taken part with the California Texas Oil Company for oil for the Navy. Will also ascertain the exact status of his authority in the Navy for negotiating for oil, both as to fixing prices and authority to purchase.

**THE SAN FRANCISCO DIVISION:**

At San Francisco, California will obtain from CARL E. BELZEYUS, comptroller, Arabian American Oil Company, 200 Bush Street, complete details as to the cost of production of all products sold to the Navy under the contracts set forth in this report. This should be broken down into detail in order that a comparative cost schedule might be set up. Will also ascertain from BELZEYUS the details of renegotiation of any contracts held between the Arabian American Oil Company and the U. S. Navy.

Will interview FREDERICK MARSHALL JAYNE, employed by the Standard Oil Company of California at 225 Bush Street and ascertain from him any discussion he might have had with Commander MacKILLIE or any other Navy official regarding Arabian Oil prices prior to the consummation of the original contract with the Arabian American Oil Company on July 9, 1945.

**THE WASHINGTON FIELD DIVISION:**

At Washington, D. C. will obtain photostatic copies of the 14 contracts between the United States Navy and the California Texas Oil Company and the Arabian American Oil Company from the U. S. Navy.

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Will from the U.S. Navy Department obtain the tanker loading reports for oil shipped from Bas Tanura and furnish photostatic copies of same to the Bureau.

Will ascertain from the files of the State Department the employment status of MAI W. TIKHOBURG and will also ascertain the extent in which he participated as a government official in securing contracts for the sale of Arabian oil products to the U. S. Navy.

Will from the State Department endeavor to ascertain if there is available a copy of the Red Line Agreement of 1920 contracted by share holders of the Iraq Petroleum Company, together with any supplement thereto.

Will endeavor to identify Mr. TATE, Mr. RINEHART and Mr. McVICHER who were reportedly employed by the Petroleum Administrator for War, War Production Board, and Undersecretary of the Navy. Will after they are identified, ascertain the extent to which Mr. MacKILLIE discussed Saudi-Arabian oil prior to contract #56x-11-10985.

At the Reconstruction Finance Corporation will ascertain the nature and extent of the renegotiation by the Price Adjustment Board and the RFC of contracts made by the Arabian American Oil Company for sale of petroleum products in 1945.

Will obtain copies of a letter written January 26, 1946, by JAMES TERRY LICE to another company official regarding expenses for 1946 and the allocation of all possible charges to that year. Inquiries should be made covering the nature and extent of the Arabian American Oil Company contracts for 1946 in order to determine to whom the letter referred to in the phrase "the company might be embarrassed with people with whom it had contracts should its net be excessively high."

Will after  are received from the Bureau, prepare an analysis of same.

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WFO 45-1908

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~ INFORMANT:

T-1;



Department of Justice,  
Washington, D. C.

b7D Per ATR

cc - Mr. [redacted]  
Mr. Schonfeld

Mr. Herbert A. Sargent  
Acting Assistant Attorney General  
Director, FBI

October 26, 1947

California Texas Oil Corporation  
Arabian American Oil Company  
Bar Fraud Claim - Civil Suit

Reference is made to your memorandum of October 13, 1947, concerning eight specific items of investigation regarding the above-named companies which you desire conducted by this Bureau.

Your attention is invited to a criminal Fraud Against the Government case entitled "Arabian American Oil Company; California Arabian Standard Oil Company," Justice file 146-33-42. It should be noted that although the criminal investigation has been completed, a final decision has not been given to the Bureau by the Criminal Division.

Since I understand it to be a Departmental policy that civil investigations are not to be conducted until the completion of the criminal phase of the inquiry, I would welcome your advice as to whether the investigation requested in your October 13, 1947 memorandum should be deferred until a decision is reached by the Criminal Division. I am directing one copy of this memorandum to Assistant Attorney General T. Vincent Quinn.

cc - Assistant Attorney General T. Vincent Quinn

WRS:ELM:agb

U.S. DEPT. OF JUSTICE  
OCT 30 1 51 PM '47

RECEIVED  
OCT 28 1947 P.M.  
COMMUNICATIONS SECTION

*[Handwritten signature]*

*[Handwritten initials]*  
OCT 29 1947

COMMUNICATIONS SECTION  
OCT 28 1947

OCT 28 1947

SAC, New York

June 5, 1948

Director, FBI

RECORDED

UNITED STATES NAVAL CONTRACTS FOR  
PURCHASE OF SAUDI ARABIAN  
PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT

Re New York memorandum dated 5-23-48, and enclosures.

Attached for each office is a copy of a memorandum dated 5-27-48, from Mr. Russell A. Clapp, Acting Assistant Attorney General, requesting that contact be made with counsel for either the plaintiff or defendant in the two suits pending in the Southern District of New York for the purpose of borrowing a copy of the transcribed testimony.

The New York office submitted a clipping from the May 21, 1948, edition of the New York Post and Home News disclosing that James L. Moffett had released a letter to the Attorney General demanding prosecution of officials of the Arabian American Oil Company. The Claims attorney handling this matter is of the belief that Mr. Moffett, who is the plaintiff in the two New York suits, will be cooperative with the Government. The New York office is, therefore, requested to contact Mr. William Power Maloney, counsel for Mr. Moffett, in an effort to borrow the transcript of testimony. This lead should be covered promptly.

cc: Washington Field, with attachment

66-11126

Attachment

COMMUNICATIONS SECTION  
MAILED 12  
★ JUN 7 1948 P.M.  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

Serial 79

71 JUL 2 - 1948

58

- Mr. Tolson
- Mr. E. A. Tamm
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Gurnea
- Mr. Harbo
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn
- Mr. Nease
- Miss Gandy



**Office Memorandum • UNITED STATES GOVERNMENT**

**TO :** Director, FBI

**DATE:** June 12, 1948

**FROM :** SAC, New York

**SUBJECT:** UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT  
Bureau file 46-13326

Rebulet 6/5/48.

There is enclosed herewith to the Bureau transcripts of testimony taken in civil action 39-779 pending in the Southern District of New York.

These transcripts were borrowed by SA William A. Halpin from WILLIAM PETER HIGNEY, 8 West 40th Street, New York City, counsel for the plaintiff, JAMES A. RUFFET, and are dated as follows:

*Handwritten notes:*  
To  
by  
6/16  
ma

- June 18, 1947
- June 19, 1947
- June 20, 1947
- June 23, 1947
- June 24, 1947
- June 25, 1947
- June 27, 1947
- June 30, 1947
- July 1, 1947
- October 15, 1947
- October 17, 1947
- November 10, 1947
- November 12, 1947
- November 13, 1947
- February 2, 1948
- February 2, 1948 (Continued the same day)
- February 3, 1948
- February 5, 1948
- February 6, 1948
- February 6, 1948 (Continued the same day)
- February 9, 1948
- February 16, 1948
- February 17, 1948
- April 6, 1948
- April 8, 1948
- April 9, 1948

*Handwritten signature:*  
W. A. Halpin

46-13326-71  
F B I

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W.A.H. 46-13326

*Handwritten initials:* E-20

*Handwritten initials:* W.A.H.

Serial 78

Letter to Director  
NY 46-2016

MR. MALONEY stated that he desired to extend his fullest cooperation to the Government in the instant matter and advised that his file will be open for review at any time by this Bureau.

He stated that he constantly refers to the enclosed transcripts in connection with his preparation of Civil Action 39-779 and requested that they be returned to him not later than June 28, 1948. Accordingly it is suggested that the Department be requested to complete its review of the transcripts of testimony and return them to New York in sufficient time to permit their return to MR. MALONEY not later than June 28, 1948.

Encs. 2c ( volumes of testimony taken in Civil Action 39-779 SIMY)

CC Washington Field

REGISTERED MAIL

SAC, New York

May 11, 1948

Director, FBI

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAKEI ARMORIAL PENNYWORTH PRODUCTS -  
WAR FRAND CLAIM - CIVIL SUIT  
New York File 46-2026

Attached is one copy of a memorandum dated May 10, 1948, from  
Mr. E. G. Harrison, Assistant Attorney General, requesting that certain  
documents be obtained in connection with two civil actions pending in the  
U. S. District Court, Southern District of New York, namely, Civil Actions  
39-779 and 39-786. It is also desired that the trial dates for these civil  
actions be ascertained. New York is requested to obtain this information and  
the documents desired immediately and to forward them to the Bureau promptly  
under registered cover.

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The San Francisco Office is advised that Mr. Harrison has notified  
the Bureau that the obtaining of certain cost data from the companies involved  
is to be held in abeyance until the attorneys handling the case have had an  
opportunity to review the final report of the Senate Committee investigating  
the National Defense Program.

One copy of Mr. Harrison's memorandum is attached for the Washington  
Field Office, office of origin.

Reference

cc San Francisco (File 46-3186)  
Washington Field (with enclosure) File 46-2026

S. I. R. 9

ORDER REC'D

46-2026

|                             |         |
|-----------------------------|---------|
| SEARCHED                    | INDEXED |
| SERIALIZED                  | FILED   |
| MAY 12 1948                 |         |
| FBI - WASHINGTON            |         |
| U. S. DEPARTMENT OF JUSTICE |         |

46-2026-100

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RECORDED - 85AC, New York

July 22, 1948

46-13326-74  
Director, FBI

EX-56

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT

Reference is made to my letter dated June 29, 1948.

Attached hereto is a self-explanatory memorandum from Howell A. Clapp, Acting Assistant Attorney General, dated July 13, 1948, wherein he requests extracts be secured from the testimony returned to your office Registered, Air Mail on June 29, 1948. As indicated in this memorandum an effort is being made to reduce the expense of securing the necessary transcripts by selecting material to extract therefrom. It is suggested that you ascertain from the official reporter service in the Southern District of New York the exact cost of the extracts requested in the attached memorandum from Howell A. Clapp and advise the Bureau immediately. This information will be furnished to Mr. Abrams prior to ordering the preparation of the extracted transcripts. Upon receipt of advice from Mr. Abrams you will be advised if this is the procedure to be followed.

It is suggested that this matter be given your immediate attention.

XX

46-13326

Attachment

COMMUNICATIONS SECTION  
MAILED 3  
★ JUL 22 1948 P.M.  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

*S. Lom*

*ATA  
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Mr. Tolson  
Mr. E. A. Tamm  
Mr. Clegg  
Mr. Glavin  
Mr. Ladd  
Mr. Nichols  
Mr. Rosen  
Mr. Tracy  
Mr. Carson  
Mr. Egan  
Mr. Gurnea  
Mr. Hendon  
Mr. Pennington  
Mr. Quinn  
Mr. Nease  
Miss Gandy

58 AUG 13 1948

Assistant Attorney General W. Graham Morrison

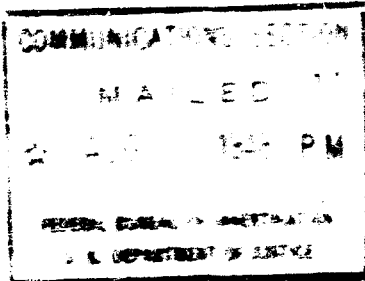
August 5, 1948

Director, FBI

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM

Reference is made to your letter dated July 13, 1948, with reference to the above-captioned case, wherein you requested that there be obtained extracts from such transcripts as furnished you in connection with this matter. You requested advice as to the expense of securing the necessary transcripts of the extracts set forth in the afore-mentioned communication.

On July 26, 1948, our New York Office advised that Miss Lebowitz, of the Court Reporters' Office for the Southern District of New York, advised that the extracts from the testimony in Civil Action 39-779 as set out in Departmental memorandum of July 13, 1948, amounted to 329 pages and could be obtained at a cost of twenty-five cents per page or a total cost of \$82.25. If you desire said extracts, Mr. Samuel I. Abrams, Departmental Attorney, indicated arrangements would be made by the Department to handle the expenditure.



## Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

DATE: July 26, 1948

FROM : SAC, New York

SUBJECT: UNITED STATES NAVY CONTRACTS FOR  
PURCHASE OF SAUDI ARABIAN PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT  
 (Bureau File 46-15326)

Rebulet 7/22/48.

On 7/26/48 Miss LEIBOWITZ of the Court Reporters' Office for the EDNY advised that the extracts from the testimony in Civil Action 39-779 as set out in Departmental memorandum of 7/13/48 which was enclosed with reference Bureau letter amounted to 329 pages and could be obtained at a cost of \$.25 per page or a total cost of \$82.25.

W.E.T.  
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*7/26/48*  
*W.E.T.*  
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*W.E.T.*

*92*  
*W.E.T.*

To: SAC, New York

DATE: September 24, 1948

From: J

Director, FBI

AIR MAIL SPECIAL DELIVERY

Subject:

U. S. NAVY CONTRACTS FOR  
PURCHASE OF SHIRT MAKING  
MACHINE PRODUCTS  
BAR PAND CLAIM - CIVIL SUIT

Re: airtel 7-23-48 and airtel 7-26-48.

Samuel K. Abrams, Departmental Attorney, requested that Miss Ledwith of the Court Reporters' Office for the Southern District of New York be furnished with a copy of the memorandum from Donald A. Glapp, Acting AM, dated 7-13-48. A copy of this memorandum was attached to referenced letter of 7-23-48.

Mr. Abrams stated he has read and authorization to purchase the transcript of 329 pages at the rate of \$4 per page and intended to negotiate directly with Miss Ledwith. However, he felt it would eliminate his rewriting the above memorandum, if same were furnished by our New York Office.

Mr. Abrams stated it would be in order to advise Miss Ledwith that she would be rewriting an order directly from the Claims Division of the Department for the extracts in question. She will be reimbursed by the Claims Division of the Department. She should not prepare the extracts of testimony until she receives a specific request in writing from the Claims Division of the Department, as the Bureau will not assume responsibility for the payment of said extracts.

65-13396

Advised

COMMUNICATIONS SECTION  
MAILED  
SEP 24 1948 P.M.  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

32 OCT 18 1948

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# Office Memorandum • UNITED STATES GOVERNMENT

TO : Director, FBI

DATE September 30, 1948

FROM : SAC, New York

SUBJECT: U. S. NAVY CONTRACTS FOR  
PURCHASE OF SOUTH ARABIAN  
PETROLEUM PRODUCTS  
WAR FRAUD CLAIM - CIVIL SUIT  
(Bureau File 46-13326)

Rebulet September 24, 1948.

On September 28, 1948 Miss LEIBOWITZ was contacted and the wishes of the Department made known to her in accordance with instructions set forth in reference letter. At the same time she was furnished with a photostatic copy of the memorandum from NEWELL A. CLAPP, Acting Assistant Attorney General, dated July 13, 1948.

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SAC, New York

June 29, 1948

Director, FBI

REGISTERED AIR MAIL

UNITED STATES NAVY CONTRACTS FOR PURCHASE  
OF HANDEL ARABIAN PETROLEUM PRODUCTS  
RE: FRAUD CLAIM - CIVIL SUIT  
(New York File 44-2316)

Reurlet 6/12/48 and our teletype 6/26/48.

Mr. Samuel E. Adams, the Claims Attorney handling this matter, completed review of the transcripts of testimony Monday evening, 6/22/48. Upon returning the transcripts, he stated that there were certain excerpts from the transcripts that he desired and indicated that he would furnish the Bureau with details of the excerpts he wanted. Upon receipt of instructions from the Claims Division, the New York Office will be furnished with the desires of the Claims Division and efforts should be made by the New York Office to secure these excerpts. In the event it is necessary to reimburse a stenographer for making typed copies of these excerpts, the Bureau would like to be so advised. The Claims Attorney states that he will have to make arrangements with his superiors to pay for such transcripts. The Claims Attorney also advised that he has done business directly with the Southern District Court Reporters in the United States Court House, Foley Square, New York, New York, and in the event said reporters would be the ones to make the transcript of the excerpts, it is suggested that you so advise the Bureau immediately upon receipt of the Bureau's request.

There is being returned to you, under separate cover, by registered air mail, the transcripts furnished the Bureau on June 12, 1948. You will be furnished with the Claims Division's request immediately upon receipt of same.

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JUN 29 2 42 PM '48  
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FBI NEW YORK  
COMMUNICATIONS SECTION

ADAMS

44-2316

COMMUNICATIONS SECTION  
MAILED 8  
★ JUN 30 1948 P.M.  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

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FM LOS ANGELES (196B-1889) (WCC-1)

TO DIRECTOR PRIORITY

ATLANTA (196B-1074) PRIORITY

HOUSTON (196B-952) PRIORITY

JACKSONVILLE (196B-544) PRIORITY

NEW YORK PRIORITY

BT

UNCLAS

UNSUB; AKA [redacted]

DBA ARAMCO

HOUSTON, TEXAS; FBW; 00: HOUSTON (196B-952)

UNSUB; AKA [redacted]

DBA MONEX INTERNATIONAL

NEWPORT BEACH, CALIFORNIA; FBW; 00: LOS ANGELES (196B-1889)

RE LOS ANGELES AIRTEL TO HOUSTON DATED 5/22/81  
ON HOUSTON FILE 196B-808, AND HOUSTON TELETYPE TO LOS  
ANGELES DATED 9/3/81 ON HOUSTON FILE 196B-952.

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OF INVESTIGATION  
COMMUNICATIONS SECTION

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| Exec. AD Adm.                |                   |
| Exec. AD Inv.                |                   |
| Exec. AD LES                 |                   |
| Asst. Dir.:                  |                   |
| Adm. Servs.                  |                   |
| Crim. Inv.                   | <i>[initials]</i> |
| Ident.                       |                   |
| Inspection                   |                   |
| Intell.                      |                   |
| Laboratory                   |                   |
| Legal Coun.                  |                   |
| Rec. Mgmt.                   |                   |
| Tech. Servs.                 |                   |
| Training                     |                   |
| Off. of Cong. & Public Affs. |                   |
| Telephone Rm.                |                   |
| Director's Sec'y             |                   |

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TO SEP 11 1981

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*[Handwritten signature]*

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PAGE TWO(LA 196B-1889) UNCLAS

FOLLOWING IS BEING PROVIDED TO THE BUREAU,  
ATLANTA, AND JACKSONVILLE FOR INFORMATION.

AS BACKGROUND FOR OFFICES NOT PREVIOUSLY  
ADVISED OF CAPTIONED MATTERS SEVERAL ATTEMPTS HAVE  
BEEN MADE BY UNSUB TO EFFECT WIRE TRANSFERS OF LARGE  
SUMS OF MONEY BETWEEN BANKS IN THE HOUSTON, TEXAS  
AREA AND THE LOS ANGELES AREA. INVESTIGATION TO DATE RE  
EARLIER ATTEMPTS HAS NOT IDENTIFIED UNSUB. KNOWN  
FRAUDULENT WIRE TRANSFERS HAVE BEEN DISCOVERED BY THE  
BANKS AND STOPPED BEFORE LOSSES HAVE OCCURRED. IN  
TWO INSTANCES, INCLUDING THE MOST RECENT, UNSUBS ACTIVITIES  
HAVE INVOLVED ATTEMPTS TO CONDUCT ACTIVITY ON THE ACCOUNT  
OF MONEX INTERNATIONAL, NEWPORT BEACH, CALIFORNIA, A  
PRECIOUS METALS AND MONETARY EXCHANGE, WITH ACCOUNTS AT  
FARMERS AND MERCHANTS BANK, LONG BEACH, CALIFORNIA.

IN THE EARLIER ATTEMPT, UNSUB USED THE NAME  
OF [REDACTED] A LEGITIMATE EMPLOYEE OF MONEX, WHO IS  
AUTHORIZED TO MAKE WIRE TRANSFERS, AND UNSUB SHOWED  
KNOWLEDGE OF PROCEDURES AND PERSONALITIES AT MONEX AND  
THE BANK, WHO ARE ROUTINELY INVOLVED IN WIRE TRANSFERS.

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PAGE THREE (LAI96B-1889) UNCLAS

IN THE MOST RECENT ATTEMPT, UNSUB USED THE NAME OF AN INDIVIDUAL AT ARAMCO, HOUSTON, TEXAS, WHO WAS AUTHORIZED TO MAKE WIRE TRANSFERS. AGAIN, UNSUB SHOWED KNOWLEDGE OF ARMACO AND BAK WIRE TRANSFER PROCEDURED.

IT IS NOTED THAT ARMACO IS AUTHORIZED TO MAKE WIRE TRANSFERS IN AMOUNTS OF \$100 MILLION DOLLARS, AND MONEX IS ONE OF THE NATIONS LEADING EXCHANGES, TRANSFERRING MILLIONS OF DOLLARS DAILY THROUGHOUT THE WORLD. EXPOSURE TO LOSS IN THIS MATTER IS THEREFORE VERT GREAT.

UNSUB'S MOST CURRENT ACTIVITY HAS DEVELOPED SUBSTANTIAL LEADS. FOR THE PAST SEVERAL MONTHS, FIRST CITY NATIONAL BANK, HOUSTON HAS BEEN RECEIVING CALLS FROM AN INDIVIDUAL IDENTIFYING HIMSELF AS  AN OFFICIAL OF ARAMCO, WHO IS AUTHORIZED TO MAKE WIRE TRANSFERS THROUGH THE BANK, WHERE ARAMCO HAS VERY LARGE AND ACTIVE ACCOUNTS. ALL CALLS TO WIRE ROOM ARE ROUTINELY TAPED, AND INVESTIGATION HAS DETERMINED THAT THE CALLER IS NOT  CERTAIN CONVERSATION AND QUESTIONS OF THE CALLER HAD ALERTED THE

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PAGE FOUR (LA 196B-1889) UNCLAS

BANK TO THE POSSIBLE FRAUD, AND THE CALLERS CONTACTS WERE BEING CLOSELY MONITORED BY THE BANK, ARAMCO, AND FBI HOUSTON.

ON 9/3/81 THE CALLER MADE A WIRE TRANSFER ORDER FOR \$489,524 TO BE TRANSFERRED TO THE ACCOUNT OF MONEX INTERNATIONAL, ACCOUNT NUMBER [REDACTED] AT FARMERS AND MERCHANTS BANK, LONG BEACH, CALIFORNIA, FOR MONEX CUSTOMER [REDACTED] "REFERENCE NUMBER [REDACTED] THE TRANSFER WAS MADE TO THE ATTENTION OF [REDACTED] WHO IS THE [REDACTED] [REDACTED] IN CHARGE OF THE WIRE TRANSFER ROOM AT FARMERS AND MERCHANTS BANK. THE CALLER WAS ASSURED BY BANK OFFICIALS THAT THE WIRE TRANSFER WOULD BE MADE AND OFFICIALS AT FARMERS AND MERCHANTS BANK WERE ALERTED FOR ANY INQUIRIES REGARDING THE RECEIPT OF THE WIRE. NO TRANSFER WAS IN FACT MADE.

ON 9/4/81, BOTH THE HOUSTON BANK AND THE LONG BEACH BANK RECEIVED CALLS FROM AN INDIVIDUAL WHO IDENTIFIED HIMSELF AS [REDACTED] [REDACTED] MADE ANXIOUS INQUIRIES REGARDING

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PAGE FIVE (LA 196B-1889) UNCLAS

THE TRANSFER AND THE BANKS MADE EXCUSES FOR THE DELAYS,  
BUT ASSURED HIM THAT THE TRANSFER WOULD BE MADE.

BY CLOSE OF BUSINESS [REDACTED] WAS UNAWARE OF FBI INTEREST  
AND WAS INFORMED THAT THE WIRE TRANSFER WAS STILL DELAYED.

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[REDACTED] MENTIONED IN HIS CONTACTS WITH THE BANK THAT  
THE WIRE COULD HAVE BEEN SENT UNDER [REDACTED]

[REDACTED] OR THE BUSINESS NAME SHELLIE CONSTRUCTION.

IT WAS ALSO MENTIONED THAT TWO WIRE TRANSFERS IN  
IDENTICAL AMOUNTS WERE EXPECTED FROM [REDACTED] OF  
SHELLIE CONSTRUCTION.

THE CORPORATE ATTORNEY FOR MONEX WAS CONTACTED  
THE SAME DATE AND ADVISED OF THE INVESTIGATION. WITHOUT  
[REDACTED] KNOWLEDGE, HE OBTAINED THE FOLLOWING INFORMATION

REGARDING MONEX DEALINGS WITH SHELLIE CONSTRUCTION AND

[REDACTED] TWO SEPERATE ACCOUNTS APPEARED TO  
HAVE BEEN OPENED IN LATE JULY 1981, BOTH UNDER THE NAME  
SHELLIE CONSTRUCTION COMPANY, BUT WITH TWO DIFFERENT  
ADDRESSES: 209 EAST 56TH STREET, NEW YORK, NEW YORK,  
CALL BACK NUMBER (212)725-7200; AND 1205 ATLANTIC  
P.O. BOX 326, NEW YORK, NEW YORK, CALL BACK NUMBER

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PAGE SIX (LA 196B-1889) UNCLAS

(212)940-0904. THE NAME [REDACTED] APPEARED ON THE ACCOUNT RECORD FOR THE ATLANTIC ADDRESS. BUT A NOTE REGARDING DELIVERY INSTRUCTIONS INDICATED THAT AN ANTICIPATED DELIVERY OF KRUGARRANDS AND MAPLE LEAFS WAS TO GO TO THE 56TH STREET ADDRESS. NO FURTHER IDENTIFYING INFORMATION WAS IN THE AVAILABLE RECORDS, EXCEPT THAT [REDACTED] WAS MARRIED AND THAT THE BUSINESS WAS CONSTRUCTION. ONE BANK REFERENCE WAS GIVEN AT CITY BANK, NEW YORK, WITH NO ACCOUNT NUMBER OR BANK ADDRESS GIVEN. THE ACCOUNT APPEARED TO HAVE BEEN OPENED BY TELEPHONE INQUIRY FROM THE CUSTOMER, AND INFORMATION WAS MAILED FROM MONEX TO NEW YORK. THERE WAS NO ACTIVITY ON THE ACCOUNT, AND THE ABOVE WIRE TRANSFER WOULD HAVE BEEN THE FIRST TRANSACTION. MONEX ADVISED THAT HAD THE WIRE TRANSFER BEEN ACCOMPLISHED, MONEX COULD HAVE SENT THE ORDERED COMMODITY VIA BRINKS TO THE NEW YORK ADDRESS FOR DELIVERY BY LATE THE FOLLOWING WEEK. MONEX ADVISED THAT THE ORIGINAL ACCOUNTS APPEAR TO HAVE BEEN OPENED BY BROKER [REDACTED] AND THAT [REDACTED] APPEARS TO BE ACTING ON HER BEHALF IN HER ABSENCE. THE REASON FOR [REDACTED] ABSENCE WAS NOT KNOWN.

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PAGE SEVEN (LA 196B-1889) UNCLAS

HOUSTON DEVELOPED INFORMATION ON 9/4/81, THAT AN INDIVIDUAL HAD CONTACTED ANOTHER HOUSTON BANK AND MADE INQUIRIES REGARDING ARMACO'S ACCOUNTS AND WIRE TRANSFER PROCEDURES. THE CALLER LEFT A CALL BACK NUMBER WHICH HOUSTON HAS DETERMINED IS FOR THE COMPUTER SERVICE CENTER OF THE HOUSTON NATIONAL BANK.

HOUSTON WILL BE CONDUCTING AGGRESSIVE INVESTIGATION REGARDING THE COMPUTER CENTER LEAD ON 9/8/81. LOS ANGELES WILL BE INTERVIEWING THE BROKERS AT MONEX THE SAME DATE.

NEW YORK AT NEW YORK CITY, IS REQUESTED TO EXPEDITIOUSLY IDENTIFY THE INDIVIDUALS AT THE ABOVE ADDRESSES AND TELEPHONE NUMBERS FOR SHELLIE CONSTRUCTION AND  CONDUCT INTERVIEWS OF APPROPRIATE INDIVIDUALS AND DEVELOPE BACKGROUND ON THE BUSINESSES INVOLVED. IT IS NOTED THAT HOUSTON AND LOS ANGELES BELIEVE THAT DIRECT AND EARLY CONTACTS SHOULD BE MADE IN ALL DIVISIONS IN VIEW OF THE POTENTIAL FOR HIGH LOSSES ON TRANSACTIONS THAT HAVE NOT BEEN DISCOVERED.

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