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Folder Title:
Farish, Will [1965]

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November 18, 1965

Dear Will,

You asked how Zapata might be used as a vehicle for building substantial offshore reserves.

In my opinion, this is an easily-obtainable goal. The obvious example of how this can be done is ODECO. ODECO is a subsidiary of the Murphy Corporation. Through association with the Murphy Corporation, ODECO is in a position to take many offshore farm-out deals. They can participate in lease purchases and, generally speaking, through their "rich parent", they can act more like an oil company.

Zapata has taken an important initial step to build up additional reserves by forming a drilling syndicate. We have joined with six smaller oil companies to take offshore farmouts. We have committed our drilling rig Scorpion to this project for six months a year for three years. We have already taken our first farmout with the group and are actively looking for more.

This syndicate vehicle could be vastly expanded if we had a "rich parent."

We have expanded rapidly in the drilling equipment field and therefore we have certain understandable restrictions on the amount of wildcat drilling we can do. Our policy has long been to reduce debt and reduce it quickly and so we have not had substantial sums of excess cash to spend on drilling deals. Also, we have become very earnings-conscious and for that reason, we are not free to do as much wildcat drilling as we would like to do. There has been pressure on all offshore drilling companies to show earnings and so we have kept our drilling budget to \$300,000 a year.

If a group interested in oil exploration owned control of Zapata, it seems to me they could expand our oil exploration activities in various ways. 1) They could step up the participation in the syndicate. 2) They could participate in the exploration of foreign deals. From time to time, we see opportunities to drill abroad and take a quarter interest but this quarter interest is usually a stumbling block to us for the reasons mentioned above.

2 - Mr. Will Farish, III

November 18, 1965

Will, it is my firm belief that there will be more and more opportunities for participations in the Gulf of Mexico. As the Gulf becomes more leased up, companies will be looking around for others to participate on a farmout basis. This has been the history on land and it is going to be the history offshore.

In my opinion, the surface has just barely been scratched for offshore oil exploration. Also, the economics are going to get better because as more production goes onstream, and more pipelines are put in, more and more production will find a market. One of the problems in some areas is that the production is fairly far removed from market.

I also expect to see a change in the gas market offshore. Soon the major gas companies will start to buy again and when this happens, there will be a lot more opportunities to drill stepouts to existing gas fields and to participate in one way or another in gas production.

Let me know if this letter brings to mind any further questions.

Yours very truly,

George H. W. Bush

Mr. Will Farish, III
Underwood, Neuhaus & Co.
724 Travis Street
Houston, Texas
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