

Stenographic
TRANSCRIPT OF PROCEEDINGS
Before The
DEPARTMENT OF THE INTERIOR

DOCKET No.-----

NATIONAL PETROLEUM COUNCIL

In the matter of-----

Washington, D.C.

Place-----

9 May 1951

Date-----

Pages 1 thru 123-----

ACE REPORTING CO.

261 CONSTITUTION AVE., N. W.

WASHINGTON 1, D. C.

Official Reporters

MEtropolitan { 2777
1789

Reviewer WSH, Jr.

Date 8/26/52

From the Files of the
National Petroleum Council

Record: Council Meeting (Transcript)

Date of Record: May 9, 1951

Report adopted at meeting of (Date) _____

Statement or Speech at meeting of (Date) _____

EXCERPTS "relative to exploration, production, refining, transportation marketing, or pricing of petroleum and its products outside the United States."

	<u>Exploration</u>	<u>Production</u>	<u>Refining</u>	<u>Trans.</u>	<u>Marketing</u>	<u>Pricing</u>
Pages	_____	<u>24</u>	<u>71</u>	<u>24</u>	_____	_____
"	_____	_____	_____	_____	_____	_____
"	_____	_____	_____	_____	_____	_____
"	_____	_____	_____	_____	_____	_____
"	_____	_____	_____	_____	_____	_____
Pages	_____	_____	_____	_____	_____	_____
"	_____	_____	_____	_____	_____	_____
"	_____	_____	_____	_____	_____	_____
"	_____	_____	_____	_____	_____	_____
"	_____	_____	_____	_____	_____	_____

Other

Pages	<u>65-69 (Iranian Situation with Respect to Possible Effect on</u>					
"	<u>U. S. Supply and Demand.)</u>					
"	_____	_____	_____	_____	_____	_____
"	_____	_____	_____	_____	_____	_____
"	_____	_____	_____	_____	_____	_____

Excerpts pertain solely to petroleum outside the United States - in the rest of the world - in any foreign country and abroad. Excerpts do not include any matter dealing with petroleum inside the United States.

C O N F I D E N T I A L

NATIONAL PETROLEUM COUNCIL

- - -

Room 5164

South Interior Building

Washington, D. C.

9 May, 1951

The Council was called to order at 1:30 p.m., by
Mr. Walter S. Hallanan, Chairman (presiding).

- - -

P R O C E E D I N G S

CHAIRMAN HALLANAN: The Council will be in order.

The secretary will call the roll.

MR. JAMES BROWN: If there is an alternate here in place of a member, will the alternate rise and give his name for the record?

(The roll was called.)

CHAIRMAN HALLANAN: I have the impression from the roll call that this is the largest attendance of the members of the Council that we have ever had. I think the response to this meeting is most gratifying and I want to extend my congratulations to the members upon their attendance at this meeting.

You received copies of the minutes of the last meeting of the Council held January 30, 1951. What is your pleasure?

(It was moved and seconded that the minutes be approved. The motion was carried unanimously.)

CHAIRMAN HALLANAN: The report of the Secretary-Treasurer.

REPORT OF SECRETARY-TREASURER.

MR. JAMES BROWN: The total receipts from contributions have been \$88,620. There are other items of \$275.

The total disbursements for the first four months, \$39,318.

We had net receipts over disbursements of \$53,577; adding the beginning balance it leaves in the general fund at the

present time to carry out the balance of the year \$56,304.32.

We are maintaining a reserve fund at the moment of \$60,035.

CHAIRMAN HALLANAN: Are there any questions or remarks in connection with the report?

If not, the report will be received and filed.

The Chair at this time desires to recognize Mr. Jacobsen to present the report of the Agenda Committee.

REPORT OF AGENDA COMMITTEE

MR. JACOBSEN: Several requests were received yesterday for consideration by the Council of subjects submitted to us by Mr. Stewart, Acting Director of the Oil and Gas Commission. They are the following, and I give you the Agenda Committee report with it.

Under date of May 8, 1951, Mr. H. A. Stewart, Acting Director of the Oil and Gas Division of the Department of the Interior, addressed a letter to Mr. Walter S. Hallanan, Chairman of the National Petroleum Council, requesting that the Council make a study of the feasibility of underground storage for petroleum products.

"Dear Mr. Hallanan:

"It would be of material assistance to government to have an authoritative study on the feasibility of the use of underground storage for petroleum products, including liquefied petroleum gas. Such storage would

reduce the steel requirements of the industry, would make available to the industry additional storage capacity during this period of materials shortages, and would be less vulnerable to enemy attack.

"It is, therefore, requested that the National Petroleum Council study the feasibility of underground storage for petroleum products and submit such report and recommendations with respect thereto as it may deem appropriate."

As provided in the Articles of Organization of the National Petroleum Council, this letter was considered at a meeting of the Agenda Committee, held on May 8 in Washington, D. C., at which it was unanimously agreed to recommend to the Council the appointment of a committee to make the study as requested by Mr. Stewart and report to the Council.

Also, under date of May 8, 1951, Mr. Stewart addressed a letter to Mr. Hallanan, requesting that the Council make a comprehensive study of chemicals or other additives which may be used as a substitute for quebracho in drilling mud and a determination of the availability of such substitute material.

"Dear Mr. Hallanan:

"On January 4, 1949, the Secretary of the Interior requested that the National Petroleum Council appoint a

committee to study and report on the requirements of the petroleum industry for quebracho and the possible development, utilization, and availability of substitutes, and to make recommendations as to ways and means of assuring self-sufficiency of the United States in the event of an emergency. The request was initiated because of the Munitions Board concern as to possible interruptions or deficiencies in the supply of quebracho.

"A Council Committee on Quebracho Requirements for the Petroleum Industry prepared a report, dated April 27, 1949, which was unanimously adopted by the Council. The report stated that the oil industry is in no way dependent on quebracho for the maintenance of the efficiency of its operations and that other natural products or chemicals are available or could be made available with a minimum of development to meet the needs of the oil industry for this type of mud treating compound.

"In view of the continued concern of the Munitions Board, you were requested on December 13, 1949, to investigate the matter further. In reply to this request, Mr. John R. Suman, who served as Chairman of the Committee on Quebracho Requirements of the Petroleum Industry, advised by letter of July 11, 1950, to Mr. James V. Brown, Secretary-Treasurer of the National

Petroleum Council, that there seemed to be no reason for concern over the supply of quebracho and that, if a shortage or interruption should occur in the supply of quebracho, there were available other materials which would be adequate.

"The National Production Authority, by Order M-57 has restricted the use of certain 'vegetable tanning material,' which includes quebracho. Although NPA considered prohibiting entirely the use of quebracho in drilling muds, representations made by the Petroleum Administration for Defense were effective so that the actual order contained the following provision:

"No processor shall use in the calendar quarter commencing April 1, 1951, or in any calendar quarter in excess of 60 per cent by weight of his average quarterly use of quebracho in such drilling during the 6-month period ending June 30, 1950: PROVIDED HOWEVER, That this paragraph shall not restrict the use, in the drilling of oil and gas wells, of any quebracho held by him as inventory on the effective date of this order, or which is in transit to him pursuant to any purchase order for quebracho placed by him prior to the effective date of this order."

"There may be further restrictions in the future.

With the exemption of quebracho in inventory or in transit against orders placed prior to April 16, the industry should have sufficient supplies for several months, during which period the industry may be able to work out and adopt the use of satisfactory substitutes.

"In carrying out the oil and gas industry's well drilling program necessary to supply the military and civilian demands for petroleum and gas, it is essential that there be available an adequate supply of suitable mud treating additives. The National Petroleum Council is requested to appoint a committee to make a comprehensive study of chemicals or other additives which may be used as a substitute for quebracho in drilling mud and a determination of the availability of such substitute material. The results of this study, together with such recommendations as may be deemed appropriate, should be submitted at the earliest possible date."

(National Production Authority Order M-57 is as follows:)

As provided in the Articles of Organization of the Council this letter was considered at a meeting on May 8 in Washington, D. C., at which meeting it was unanimously agreed to recommend to the Council that a committee be appointed to make the study as requested by Mr. Stewart and report to the Council.

Under date of May 8, 1951, Mr. Stewart also addressed a letter to Mr. Hallanan, requesting that the Council make a study regarding availability, adequacy of transportation facilities and minimum materials required for production and transportation of liquefied petroleum gas.

The letter is as follows:

"Dear Mr. Hallanan:

"Significant changes in the liquefied petroleum gas situation have occurred since the submission by the National Petroleum Council of its last over-all report on this subject. During the winter of 1950-51, there were repeated local spot shortages of liquefied petroleum gas and there are indications that spot shortages or tight situations could easily occur during the coming winter.

"The National Petroleum Council is requested to study the probable availability of liquefied petroleum gas, adequacy of transportation facilities for movement thereof, and minimum materials required for production and transportation to alleviate possible shortages, and

submit such report and recommendations with respect thereto as it may deem appropriate."

As provided in the Articles of Organization of the Council, this letter was considered at a meeting of the Agenda Committee held on May 8, 1951, in Washington, D. C., at which it was unanimously agreed to recommend to the Council the appointment of a committee to make the study as requested by Mr. Stewart and report to the Council.

Mr. Stewart also addressed a letter to Mr. Hallanan, dated May 8, 1951, requesting that the Council make a study and report trends in the manufacture, sale, installation, and use of petroleum consuming equipment.

The letter reads as follows:

"Dear Mr. Hallanan:

"It would be of material assistance to the Department of the Interior in connection with studies with respect to petroleum to have as complete information as possible regarding trends in the manufacture, sale, installation and use of equipment which consume petroleum products.

"Therefore, it is requested that the National Petroleum Council study and report on trends in the manufacture, sale, installation, and use of petroleum consuming equipment, together with such recommendations with respect thereto as it may deem appropriate."

As provided in the Articles of Organization of the Council, this letter was considered at a meeting of the Agenda Committee, held on May 8, 1951, in Washington, D. C., at which it was unanimously agreed to recommend to the Council the appointment of a committee to make the study as requested by Mr. Stewart and report to the Council. Such report, however, shall not contain any projection or forecast as to future trends.

Also under date of May 8, 1951, Mr. Stewart addressed a letter to Mr. Hallanan, requesting that the Council undertake a census of that portion of the tank truck problem which it can properly handle.

The letter is as follows:

"Dear Mr. Hallanan:

"No complete census of tank trucks used in the petroleum industry has been taken since 1944. There has been a large increase in the number and use of tank trucks since the census, and it is highly important in a proper analysis of transportation capacity that the government have up-to-date and adequate information.

"Tank trucks used in the petroleum industry fall into three categories as to ownership:

- "1. Private
- "2. Contract carrier

"3. Common carrier.

"As to use:

"1. Clean oil

"2. Heavy oil

"3. Liquefied petroleum gas (pressure tanks)

"4. Chemicals.

"The National Petroleum Council could not attempt to make a complete census of all trucks in all of the above categories. However, the Council probably would be the best source of information on some of the categories.

"Therefore, it is requested that the Council consider this matter and appoint a committee to undertake the census of that portion of the tank truck problem which it could properly handle."

As provided in the Articles of Organization of the Council this letter was considered at a meeting on May 8 in Washington, D. C., at which meeting it was unanimously agreed to recommend to the Council that the matter be referred to the Council's Transportation Committee to make the census as requested by Mr. Stewart and report to the Council.

I move the adoption of this report.

(Motion seconded.)

CHAIRMAN HALLANAN: Is there any discussion?

All in favor of the adoption of the report submitted by

the Agenda Committee will indicate by saying "Aye." Contrary, "No."

The report is unanimously adopted.

Gentlemen, we move now to the matter of reports of Special Committees of the Council.

I should like at this time to recognize Mr. McCollum, Chairman of the Committee on Oil and Gas Availability.

Mr. McCollum.

REPORT OF COMMITTEE ON OIL AND GAS AVAILABILITY

Mr. McCollum. Although I cannot give a completed report, I can nevertheless bring you the good news that it is substantially completed.

There have been, I suppose, some 300 to 500 people working on this report and had I anticipated the volume of work involved, I wouldn't have had the courage to undertake the task.

Three subcommittees were appointed, one by Mr. Baker on domestic availability of oil and gas. He has a vice-chairman, Mr. Dave Hulcy. That committee appointed subcommittees for the five districts. They in turn appointed committeemen and the work is substantially complete.

I believe there have been two or three preliminary reports of that committee and it is complete except for minor corrections and finished wording.

Another subcommittee was a short-term foreign availability, chairmanned by Mr. Sooman. That report is complete

and in my hands.

The third committee headed by Mr. Max Ball on long-term availability; he broke that down into four panels, one on rates of discovery by Cramm, and another on the improved development and recovery technique by Ed Warren, one on availability of synthetic sources by Cy Ruble, and one on economic and political factors by Stuart Coleman.

That report is in the process of being completed, but is probably not as far along as the other two.

Now, within a very short time they will be in such shape that they can be submitted to the main committee and until they are finalized, I don't believe it would be well for me as chairman of the main committee, without having advice from my committee, to try to divulge any of the details here, but they will be completed very soon and available long before the next meeting of this council.

CHAIRMAN HALLANAN: It will be submitted as an interim report.

MR. McCOLLUM: They will indeed, provided my committee-men go along with me.

CHAIRMAN HALLANAN: Are there any questions, gentlemen, of Mr. McCollum?

(No response.)

CHAIRMAN HALLANAN: Thank you very much, Mr. McCollum. Gentlemen, you will recall at the last meeting of the

Council a committee was appointed to deal with the question of Capital and Materials Requirements for Increasing Availability of Petroleum Products, otherwise known as the Million Barrel Committee.

Dr. Wilson was appointed as chairman of the committee and on February 26, last, an interim report from this committee was submitted to me as chairman and in turn was forwarded to the Secretary of the Interior. That interim report dealt primarily and specifically with the matter of oil and gas depletion. You received a copy of that report.

Members of the Council were given a copy of the interim report under date of March 1st and it was released at that time.

I desire to recognize Dr. Wilson to present any further report of your committee, but particularly I call attention to the fact that we have before us the interim report for consideration of the Council.

REPORT OF COMMITTEE ON CAPITAL AND MATERIALS REQUIREMENTS
FOR INCREASING AVAILABILITY OF PETROLEUM PRODUCTS

Mr. Wilson. You will recognize it was a little irregular to release this report through Secretary Chapman before it came to the Council, but the feeling of the committee was strong and unanimous that we should promptly point out that all talk of getting one million barrels a day of additional production would be shot in the head if

we had our depletion seriously interfered with and therefore we took the liberty, since it was unanimous, and since the chairman was agreeable, to send that along at the right time, and I think it was a worth while thing to do.

We sent out to members of the committee the full minutes of that meeting and agreed on a tentative method of procedure.

The subcommittee chairmen in general got their committees together for a discussion of their problems and, as things went on, it appeared that the original assignments agreed on by our main committee needed some modification, to be realistic and feasible to carry out.

We also got some preliminary information as to existing capacities which we had not had.

We had a second meeting with the chairmen of the subcommittees and a representative from PAD and your chairman to revise the basis of procedure, and that was sent to all members of the committee and the committee was apparently in entire concurrence with the revised basis of procedure.

On the basis of that, I drafted a progress report to this committee and sent it out about a week ago or about ten days ago to the members of the Million Barrel Committee, which are widely scattered and in a large committee.

There developed quite a number of questions and criticisms to this draft of the report to the council, and policy questions, as a result of which, trying to anticipate some

of the points, a revised draft, number two was repaired and I made a pack horse of myself to carry 150 copies down, hoping that I would have something specific to hand to you.

We had a meeting of the Million Barrel Committee this noon and being a very good and very active committee, that draft was shot through with quite a number of holes so I don't have anything official to present.

I think the reason for not presenting a report will appear as I go through the third revised draft and indicate the procedure that we would like to suggest and the reasons therefor.

Pursuant to the request of the attached letter from Mr. Stewart under date of January 29th to Mr. Hallanan, a committee was called to report on the capital and other requirements for a possible million barrel expansion of petroleum outfit above the levels prevailing November 1, 1950 and January 31, 1951.

I have told you something about our two committees.

Since the proposed expansion figures are to be based on daily average operating results for the three months, the following figures were taken as the base case from which the million barrel expansion is to be figured, and you must keep in mind when I talk about expansion above the base case it is expansion above the three months period which has already been substantially exceeded in both production and refining since then.

While the actual final figures were slightly different from these, it seemed unnecessary for the purpose of this report to change the round figures originally estimated and those were, briefly, domestic crude production, 5,860,000 barrels a day, and domestic refinery runs, 6,220,000 barrels per day.

That does not include natural gas liquids. We give the figures for that as well.

For the sake of simplicity, since the final figures can be only approximate, the committee proposes to work with the production and refining figures for crude only. The production of natural gas liquids is bound to increase with increasing crude production and to an extent sufficient to offset refining losses so a given increase in crude production and refinery runs will, for the purposes of this study, be assumed to give an equal increase in products.

That is rough, but a simplifying assumption that seems reasonable.

Refinery fuel would be assumed to be refinery gas supplemented as necessary with natural gas.

Our subcommittee on production has already advised that the country's present ability to produce at the maximum efficient rate is at least 800,000 barrels per day above the base period crude production. Remember that is above the base period crude production and not above present crude

production, which has used up a little less than half of that excess.

The studies of the refining subcommittee, and the API indicate that the present operable refining capacity of the country -- note that that is operable and not efficient -- is about 700,000 barrels per day above the base period run. However, some of this operable capacity is poorly located, expensive to operate, and would have difficulty in making products of competitive quality.

In the judgment of the committee, we should not count on being able to use more than five hundred thousand barrels per day of this capacity. That is above the base period, and even this amount will require substantial new transportation and storage facilities to make its utilization possible on a year-round basis.

While the Oil and Gas Division suggested that the cost in steel requirements be reported for four separate capacity increments of 250,000 barrels each, such arbitrary increments could not reasonably be homogeneous in their make-up.

In other words, it would be some in Canada, some in the United States, some in Venezuela, and to divide it into those arbitrary increments did not seem feasible.

The committee, accordingly, plans to submit a report on four increments of capacity as set forth hereinafter with estimated figures for the steel and dollar requirements

for each increment.

In order to make these figures as definite and reliable as possible, the proposed figures are each based on certain reasonable assumptions as to where in the Western Hemisphere additional crude supplies could be developed and refineries built.

Now, this is underlined and I want you to keep this very strongly in mind because there has been quite a little misunderstanding as to the functions of the Million Barrel Committee:

"It must be definitely understood, however, that the committee is not in any sense attempting to recommend a program or even to indicate that the proposed increments are the most economical or desirable ones. Obviously, the industry will and should continue to expand in the future as in the past, based on the individual decisions of many different countries and the actual pattern of the industry expansion will doubtless be quite different from that herein postulated as a basis for calculation."

This is simply to make it possible to calculate steel requirements on some definite basis and it is not a program and it will never be adopted.

As a matter of fact, reports already made in answer to the refining subcommittee's questionnaires indicate that the domestic refining capacity under construction or plans for completion within two years are in some cases awaiting certificates of necessity or assurance of needed materials. It amounts to about nine hundred thousand barrels per day. However, the shortages of steel and other materials raise serious doubts as to whether these facilities can be completed within that time.

There are other possibilities for substantial additional expansion largely by bottle-neck removal by the end of 1953, but this again depends upon the availability of steel and other materials.

Clearly, the industry is willing on its own initiative to continue its record of vigorous expansion.

The assumptions as to the four increments of capacity upon which the estimates would be made are as follows -- this is all subject to approval by the Oil and Gas Division because we changed from the original letter.

The first assumed interim of capacity would be the five hundred thousand barrels per day which can be obtained from existing production and refining facilities. Actually,

about two hundred thousand barrels per day of this available capacity was in use during the month of March, 1951. To operate, much of this existing capacity on a year-round basis will, however, require additional pipelines and other transportation facilities to get the available crude to the available refineries, more storage capacity to take care of the greater build-up of stocks that will be produced.

As it is now, we speed up our refineries in winter when the demand is big and use the extra capacity part of the year. If you are going to use it the year-round, you have to have larger storage facilities than we now have.

Most of the calculations of the steel and dollar requirements for the first increments will have to be made by the storage and transportation subcommittees. There is a complicated task. All that can now be said relative to storage capacity needs is that according to preliminary PAD figures, the amount of steel available to the industry for new tankage this year will build only about forty million barrels of additional storage.

Present indications are that this amount will not be sufficient to permit all the shut-down capacity to be operated continually.

The transportation requirements will be developed in cooperation with the group now working on similar figures for the PAD. The industry also has under way, or definitely

planned, enough new pipeline construction to take care of most of the existing production and refining capacity, plus much of that anticipated for the coming year or two.

Again, however, the shortage of pipeline will apparently slow up the desired completion dates rather seriously.

In that connection, when we are talking about additional transportation for liquefied petroleum gas and other things, I sometimes wonder if we are giving enough attention to this basic requirement without which our new refineries and products will not be any good. That is, enough steel to connect up the new wells and get it to the new refineries and the expanded refining facilities. I am seriously concerned about that situation.

In spite of the fact that our spare producing capacity is at least three hundred thousand barrels per day above that required for the first increment above the base period figures, and that we also have some further refining capacity available or under construction, these are to be considered as a necessary cushion and none of these additional existing facilities are to be counted on in calculating the dollar and steel requirements for the following three increments, all of which are to be based on ground-up expansion, including exploration, development of production, and the building of refining and transportation facilities.

In other words, the first increment, we have the

production and the refining and we have to have transportation and steel to make it operable.

The second, third and fourth increments don't use any of the additional surplus that we have, but are based on all new. These figures, of course, probably give them in increments of one hundred thousand or three hundred thousand barrels. Within reasonable limits, you can multiply that by a factor of 1.5 and still have your figure totalled pretty good.

The second assumed increment would be three hundred thousand barrels per day of all new production in district three of the United States, with the refining capacity to be located in at least two different locations on the Gulf Coast, keeping in mind the desirability of not adding to the congestion in existing major refining areas.

Pipelines will be figures on to get the new crew to the new refineries. The report will undertake to show estimated average per barrel expenditures for expansion and product producing capacity in the United States as a whole, and also in district three during the three-year period 1948 to 1950, an estimate within a range for 1951.

Steel requirements will be estimated for the same periods and areas. This will be in addition to the substantial steel requirements necessary to maintain production ability at any given level.

Third, since the committee is requested to assemble figures for different sources in the Hemisphere, the third assumed increment would be one hundred thousand barrels per day in all new production in Alberta, Canada, with pipelines and transportation to the Pacific Northwest and refineries to be located in the Pacific Northwest accessible to water transportation.

The fourth increment of one hundred thousand barrels per day would be all new production in Venezuela with tankers provided for transportation to the east coast of the United States and new refining facilities to be built in the east coast. That is five hundred thousand existing, three hundred thousand all new, district three, one hundred thousand in Canada and one hundred thousand in Venezuela, and the refining capacity -- new refining capacity -- to correspond to the last three increments.

Since all the new refineries will be located on deep water and available to meet war demands by tanker shipment, we would not plan to estimate storage facilities beyond those required to permit normal continuity of refinery operation and tanker shipment in a coastal refinery, nor the additional tankers that might be required to handle the products.

Such figures can, however, be readily calculated, based on whatever destinations are to be assumed.

In order to make their calculations as definite and realistic as possible, the Refining Subcommittee has agreed upon a number of alternative bases of calculations which it does not seem necessary to detail at this time except to say in general the new refineries will be of economical size adapted to any kind of crude and able to make a substantial proportion of high-octane gasoline, but not special products like lubricants, wax, or petroleum coke.

For the information of the Council, the following tabulation of refinery runs and estimated refinery capacities at various dates, summarizes the foregoing discussion and emphasizes the figure of the industry.

Average crude runs in 1949 were 5,330,000 barrels a day.

Average crude runs in 1950 were 5,740,000, an increase of 410,000 above 1949 runs.

Estimated crude runs, the first quarter, 1951, 6,440,000 -- that is 220,000 above the base case, and 1,100,000 above 1949 runs.

Estimated refining capacity, January 1, 1951, 6,800,000 barrels a day, and there is a footnote that that is not all utilizable, due to inadequacy of existing transportation facilities, and some of it is not very efficient.

Industry capacity planned for April 1, 1953, 7,700,000 barrels per day. That is, of course, subject to the same

qualification regarding the shut-down capacity, plus the fact that the new capacity may not be fully attainable due to shortages of steel or other materials, but if attainable that would mean an increase above 1949 runs -- not 1949 capacity -- of 2,370,000 barrels per day.

How is that for a vigorous industry?

Since the bases of calculation upon which we propose to proceed are somewhat different from those originally suggested in Mr. Stewart's letter, we suggest, if the Council approve, that this preliminary report be submitted at once to the Oil and Gas Division with the suggestion that if it concurs it submit a revised request along these lines to the Council. I think we should ask in the interest of avoiding major delay that if the Agenda Committee gives emergency approval, our committees and subcommittees be authorized to proceed along the lines without awaiting further Council approval.

We feel that we have departed a sufficient extent from the original request and the approval of the Agenda Committee that we ought to start over and say, "There, we think, is the most feasible way to give you what you want, but we can't read your mind. If you want it along this line, submit a new request and just to be doubly sure, get Agenda Committee approval to proceed on that, and if we do, then we will go ahead and bring in a report as soon as is reasonably feasible."

CHAIRMAN HALLANAN: Mr. Stewart, do you desire to comment upon the report?

MR. STEWART: The basis upon which the committee has proceeded is, of course, considerably different from the original request but inasmuch as it will give us the factors for large increments from which we can then calculate money and material requirements in any sort of increments we find desirable, I think that it will be sufficient and satisfactory for our purposes.

While I would like to go over this increment report carefully and make sure that it does satisfy the program outlined, it satisfies our needs. I think we can revise our request and thereby expedite and simplify the work of the committee.

We are fully aware of the fact that the request was a big request. If there is anything we can do to simplify it and still get the basic information we need, we would be very glad to go along.

CHAIRMAN HALLANAN: Are you in harmony with the request of the committee that you submit another request?

MR. STEWART: Yes, very definitely.

CHAIRMAN HALLANAN: You have heard the report of Dr. Wilson. Is there any discussion?

MR. McCOLLUM: Mr. Chairman.

CHAIRMAN HALLANAN: Mr. McCollum.

MR. McCOLLUM: I would like to make one comment and particularly for the record.

I was asked to handle the production end of the Million Barrel Committee. I was asked for the reason that I was chairman of this Availability Committee. I suppose that is a very logical reason.

MR. WILSON: Plus the fact that you were not at New York when it came up.

MR. McCOLLUM: Next time I will be there, Bob.

Without the knowledge of my main committeemen, and without the knowledge of the subcommittees, and I assume without the knowledge of the members of the committees of the short-term availability chairmen, I gave to this committee the preliminary figures some two weeks to a month ago, the figures recited here.

For the record, I would like to reflect that those figures have been changed since that time, particularly with respect to domestic production and availability, and I am informed today that they may be changed again.

Therefore, I would like to urge that they not be accepted as final until the short-term availability committee's report is final and until it is reviewed by my committee and submitted as a final report to this Council.

CHAIRMAN HALLANAN: Doctor, what do you have to say with relation to that?

MR. WILSON: I indicated that it was a preliminary report from this committee and there is no question about there being more than the five hundred thousand barrels which is all we are counting on. There is much more than that. It doesn't affect our report, as I see it, but I am sure we are glad to have the statement.

We naturally are utilizing the work of this committee so we won't have to have two committees going over the same ground. There is even a slight danger that they might not agree, which would be embarrassing.

CHAIRMAN HALLANAN: Is there any further discussion?

MR. WILSON: I move you first, Mr. Chairman, that the procedure authorized here of submitting this to the Oil and Gas Division requesting a resubmittal and requesting that we be permitted to act if the Agenda Committee gives emergency approval, be approved by the Council.

CHAIRMAN HALLANAN: You have heard the motion. Is there a second?

(Motion seconded.)

CHAIRMAN HALLANAN: All in favor indicate by saying "Aye." Contrary, "No."

It is unanimously ordered.

Now, Doctor, will you present the interim report for consideration?

MR. WILSON: The report that I referred to first, and

that Mr. Hallanan referred to, of which you have copies, submitting the final draft of the Million Barrel Committee, with the suggestion that, in view of the urgency of the recent matter, you consider sending it to the Secretary of the Interior.

Mr. Walter Hallanan's letter to Mr. Chapman, dated February 26, mentioning the submittal of this committee

"In the light of this request, which I considered as of an emergency character in relation to our national security, I promptly appointed a committee to go into this subject, and Dr. Robert E. Wilson, Chairman of the Board of the Standard Oil Company of Indiana, is Chairman of this Committee. The Committee is composed of a good cross-section of all segments of the petroleum industry. For your information, I enclose a copy of the membership.

"In pursuance of this request, the Committee organized promptly and has prepared an 'interim' report, which Chairman Wilson has submitted to me. I feel that this interim report is of such urgent importance that I should pass it along to you and the members of your staff. You will understand that it has not been approved by the Council, but will be submitted for Council consideration at the next meeting. In the meantime, I desired that you have the benefit of the information

herein contained, which bears upon this important subject relating to our national defense program."

CHAIRMAN HALLINAN: It has been moved and seconded that the motion be favored.

All in favor indicate by saying "Aye." Contrary, "No."
It is so ordered.

Thank you, Doctor.

The next order of business is the report of the Committee on Oil and Gas Industries Manpower. The Chair desires to recognize Mr. Vandever as chairman of that committee.

REPORT OF COMMITTEE ON OIL AND GAS INDUSTRIES MANPOWER

MR. VANDEVEER: Mr. Chairman, this report of the Manpower Committee used exactly the same forms that were used last December when the Manpower Committee compiled its report and was adopted by the National Petroleum Council. There has been no deviation at all in this report with the exception that we have classified the 26 year olds as compared to the break-down in the last report.

When I am finished, if there are any questions that anyone would like to ask relative to the procedure, I have Mr. Ralph Hoitsma, from the Standard Oil Company of Ohio with me.

I apologize, Dr. Wilson. I was thinking of the parent company rather than Standard of Indiana, which I almost mentioned.

Ralph has acted as secretary of this committee and will be glad to answer any questions.

The Committee on the Oil and Gas Industries Manpower, complying with the request of the Director of the Oil and Gas Division of the Department of the Interior, as authorized by the National Petroleum Council, presents its report showing the results of a survey of the manpower requirements of the petroleum and gas industries, together with other recommendations deemed to be appropriate.

This committee deemed it necessary to revise the report of the National Petroleum Council's Committee on Petroleum Industry Manpower, as presented to the National Petroleum Council on January 26, 1950. The previous committee estimated its survey, as of December 31, 1948, represented at least 70 per cent of the domestic crude production and refinery intakes.

I. The present committee has revised the manpower survey of December 31, 1948 to reflect changes as of December 31, 1950. The revision was accomplished by making a survey of fourteen companies, representing about 30 per cent of the manpower included in the 1948 report, and applying the results of the sample percentagewise to the 1948 figures. The figures for December 31, 1948, and the revised figures as of December 31, 1950, follow:

	<u>Dec. 31, 1948</u>	<u>Dec. 31, 1950</u>	<u>Percentage Increase</u>
Total female employees	51,615	58,087	11.14
Total male employees	<u>463,856</u>	<u>480,281</u>	<u>3.54</u>
Total employees	<u>515,471</u>	<u>438,368</u>	<u>4.44</u>
Male employees requiring less than 1 year to train replacement	171,528	177,703	3.5
Total males under age 35	185,111	186,510	.75
Total males under age 26		49,288*	

*In the original report, December 31, 1948, the breakdown of males under age 26 was not shown. However, in the 1950 sample survey the breakdown was included, resulting in the calculated number shown.

This is the one that I think tells you a great deal about what might happen to your country.

Male employees in the armed forces reserves or national guard	28,708	32,065	11.7
---	--------	--------	------

II. The committee was unanimous in its opinion that the National Petroleum Council recommend that the Petroleum Administration for Defense establish a unit to review, upon request from employers in the industry, requests for occupational deferments under the Selective Service Act and requests

for delay in calls to active duty for reservists holding key positions in the industry, and to make recommendations to Selective Service Boards and the military authorities; such recommendations to be based on the individual's importance to the national program for increasing the supply of petroleum and its products.

This parallels the activity of the old Petroleum Administration for War, Manpower Section, during World War II, except that it is recommended that this activity now be expanded to cover reservists as well as selectees.

By that, gentlemen, we mean this, that the PAD be made the claimant agent. That word "claimant" probably isn't the right word, but at any rate similar to what happened in the old PAW days; anyone really justified in getting a deferment, the PAW went to bat for them and we had a very high batting average. We recommend that the PAD be made the agent to represent the petroleum industry on deferments, with other agencies here in Washington.

III. In order that industry may logically plan the maximum use of its essential manpower, it would be exceedingly helpful if the Defense Department could establish a plan of rotation whereby employees drafted or ordered to active duty are returned to the industry after serving a specific period of time. At the present time, while employees are in service for specified periods of time, the periods

have been extended in some cases.

IV. As long as there exists a period of international tension, the committee recognizes the possibility of all-out mobilization at any time. It is therefore recommended that PAD have at hand well-defined plans for the activation of its manpower organization on very short notice. These plans should include lists of likely candidates for positions in regional PAD manpower offices. Regional industry advisory committees, however, should be set up to handle manpower problems until the job becomes large enough to require a government staff in the various regions.

Further, under present partial mobilization, it is suggested that without increasing PAD's staff an oil and gas industries manpower advisory committee could be appointed to assist PAD in Washington on manpower problems and planning as recommended above.

Gentlemen, you have heard the report. I recommend the adoption of the report.

MR. ALTON JONES: May I raise a question as to the ambiguity of the language in relation with this Council's connection with PAD?

I am not sure, Mr. Vandever, that you couldn't improve your recommendation by more clearly defining the relation between this Council and PAD.

As you know, there is still a hiatus there. I wonder if we couldn't take these recommendations to the Oil and Gas

Division and let them implement this report in any way they see fit. After all, that is our function now.

MR. VANDEVEER: I think, Mr. Jones, that is a very timely suggestion and we will be glad to make whatever changes are necessary.

MR. DUKE: You have 32,000 employees in the forces of the National Guard. There is some duplication there.

MR. VANDEVEER: There is 28,000 in '48 that we have, and in '50 we have 32 plus.

MR. DUKE: These 49,000 males under 26; does that include any part of this 32,000?

MR. VANDEVEER: Mr. Hoitsma.

MR. HOITSMA: The one includes the other.

CHAIRMAN HALLANAN: Are there any other questions?

Mr. Jones, your suggestion is that this report be revised so as to submit its recommendation to the Oil and Gas Division for its consideration?

MR. ALTON JONES: That would be my suggestion.

CHAIRMAN HALLANAN: If there is no objection then, the report will be revised in accordance with that suggestion.

Now, the question is the revision of the report as contemplated. All in favor of the motion indicate by saying "Aye." Contrary, "No."

It is so ordered.

Gentlemen, I hope you will pardon my interruption, but

I know the Secretary has a very active afternoon in visiting these various groups. We are delighted that he has just come in here to be with us.

I know that everybody in that meeting today was profoundly impressed with the statements that were made and the expressions that came from the President, from Defense Mobilizer Wilson, and from Mr. Fleischmann. I think it was a profound impression.

Mr. Secretary, I do not think there has been any relaxation along the line in the oil industry, but if there has been, certainly the treatment we had this morning will be a very helpful assistance to us.

It was a fine meeting and I am very happy that we have had the privilege of participating in it and to hear these discussions from these men in high places who are directing the destiny of the country in this perilous time.

I may say to you that this meeting has brought the largest attendance of the Council that we ever had in its history. I think that bespeaks the great interest that we find in continuing our plan of industry cooperation with the government, both in peacetime and in any time of national crisis.

I know you have many problems and I want to thank you for visiting with us and I know the members of the Council will be delighted to hear from you, Mr. Secretary.

(Applause.)

rc-1
fls m

STATEMENT OF OSCAR L. CHAPMAN

SECRETARY OF THE INTERIOR

SECRETARY CHAPMAN: Coming to this Council is somewhat like coming back home. I am new on the gas council and the power council. They in turn are somewhat new in the Department, but coming back here is like returning to old home folks who have been used to working with me. I have been used to working with you people and I want to say I have enjoyed it extremely over the years.

I for one do not stand in fear of the great oil industry's doing this or that to our economy or doing this or that to our government like some people do -- and like I used to. I am going to be honest with you. You know, you kind of learn as you go along.

As I told one of the gentlemen this morning who was talking to me about a problem he wanted me to take an active part in helping him with -- it wasn't on the oil industry; it was one of the other councils; but I said, what you need is somebody who can get some facts and get this thing together. I am more of a crusader. I believe we often speak in those terms.

I am awfully glad my experience with you people as a business group has been one of the most pleasant experiences and I think one of the finest things for me that I have had since I have been in the Government service. I don't know of

another group that I have enjoyed or that meant more to me than this group of people.

You folks don't need my advice about what needs to be done. You are working in close cooperation with Bruce Brown, one of the best administrators in the Federal Government anywhere, I don't care who he is.

(Applause).

Second, we have had the closest relationships, working together, and I know that he is working intensely to keep the program that you are interested in and which you have to move forward, in order to meet the objectives set out by the President and Mr. Wilson this morning.

I was very happy to have those two gentlemen, the President of the United States and Mr. Wilson, the Director of Mobilization, to meet with you. That was the best way I could think of as a technique to get them to get the feel of the business people who are in here working on these problems day by day. I wanted them to have the chance to talk with you. I wanted you people to understand their feeling about it.

First, I was trying to make them realize the importance of those people of the country who are dealing with the raw materials and the natural resources of this Country.

It is so important that not one single part of their objective that they are working on, in the Defense Pro-

c3
could be carried out without a successful carrying out of the programs represented in these councils that met here this morning.

(You have to have a success in these councils. They are basic to the very things we are talking about. They are basic to the success of the Country. You have to have it. There is no other way.

With that, I want to say that the petroleum industry is moving along, I think, in fine shape. I find that the PAD boys are there when the door opens every morning. If anybody starts talking about shortages they are over there before they get the door open.

(If you start talking about changing the rules they want to be in there when you start changing them. They don't like for you to change the rules on them in the middle of the game, though. They want you to let them in on it.

That is the kind of help you have to have. The comments I have heard around Washington about the activities of the men in PAD has been the highest type of compliment to a people in public connection and service. It is of a kind I appreciate. We need that kind of a reputation to help us get the job done. We are getting it and you are doing it.

(I don't know of a thing I can say that you need today except I will say this: we are still continuing some further discussions with the Justice Department.

We have not concluded it. I just don't like to stay licked permanently.

We are not licked yet and we are still continuing some conferences on that matter in which you are very vitally interested. There will be some conferences on this this week which I hope will produce some results, but if not, we will go back next week. We will continue to try to work this out so that we can do it in such a way that I can get real business advisory councils. That is all I am asking for

(Applause.)

You are not being asked as members of an industry to try to run the program of the Government. The Government has asked you as advisors to give them advice about the course to follow and the things to do to gain the objectives that we have set as our goal. When we ask you that, I for one want it as a genuine industry advice.

Now with that thought in mind, I am going to leave it with you, that we will continue those discussions until I hope we can get some satisfactory solution out of it.

Mr. Hallanan has done a splendid job in working with us in this oil program. I want to express my appreciation to you, which I have never done.

(Applause.)

I am going to tell you a little story on myself in relation to him and I don't know whether the other half of it

is true at all, but this half is true: I didn't learn this now -- believe it or not, as active as you have known me to be politically and in public life -- I didn't know until just a short time ago that I was dealing with an active Republican organization man.

I don't believe people are taking political philosophies personally. You can take them seriously, but I didn't know he was a Republican National Committeeman. I didn't know it was the same man until a friend of mine down in West Virginia started jumping all over me one night. He says, "Why do you have this fellow as Chairman of your council?"

I said, "Why shouldn't he be Chairman, he is one of the good oil men."

He said, "Don't you know he is a Republican National Committeeman?"

I said no.

I hope I haven't embarrassed you. Nobody should be embarrassed about his political affiliations on this line, I don't care what they are. You take your position any way you want to. People have a right to recognize it and I think it is a decent thing to do and I think people should take more active part in their public life through political affiliations. I believe in that. I think it is good government

CHAIRMAN HALLANAN: I may say that perhaps I haven't been doing very much on the other end.

SECRETARY CHAPMAN: I just wanted to tell you that story on this because it shows you this fellow hasn't tried to use his position from a political point of view in dealing with anything in here.

Of course, he has known what my political affiliations are.

CHAIRMAN HALLANAN: Very well.

SECRETARY CHAPMAN: I hope we can keep in that same spirit all the way through. It has been wonderful for this group.

I want to be perfectly honest with you: You know, I wouldn't hesitate, if I really needed some help up on the Hill for something that I thought was for the good of the Country, to call Hallanan and say "Will you talk to your people and see if we can get this morning?"

I wouldn't hesitate to do it. That is legitimate contact for carrying out the wishes of the people.

Senators and Congressmen are elected to carry out the will of the people. They have to determine what is the will of the people -- I want to be sure our fellows are there telling them what it is. Just don't be late.

I had one of the most interesting evenings in Los Angeles last year I hever had. I sat next to Pete, here, and listened to a story he told me about some of his past business experiences. I never told him the other half of

that story he didn't know. Some time I will tell him the other half.

But I enjoyed that evening with him out there.

Second, I have said in all sincerity, what I have said about Walt Hallanan is said with deep appreciation of his real services to the Country and certainly to me and to the Department of the Interior. But I feel I would be negligent of complete honesty to you if I didn't tell you also that Major Parten has been one of the mainstays in helping me whenever I needed him.

(Applause.)

It actually seems like when I talk to him, whether he is in Texas or here, I do not realize how much inconvenience I am putting the fellow to. He is down in Texas and I call him at 3:00 o'clock and say I would like to talk to him and he says, "Sure, I will be there. What time?" And he come in the next morning.

One time I thought he was in town when he was actually in Texas. My secretary placed the call and when I talked to him I thought he was in town. My secretary said, "You made that conference for tomorrow?"

I said, "Yes."

She said, "Well, he is in Texas."

I said, "Well, he will be here. I didn't realize he was down in Texas at the time I talked to him."

My secretary got him on the phone. That is the spirit that makes this Council such a success.

Also, let me say this to you: I think the oil industry is enjoying the best reputation from the point of view of public relations that you have had in my lifetime.

(Applause.)

I think it is deserved. I think you have worked for it. I think you are honestly trying to do it and I think you are enjoying the best relations publicwise that you have had since I can remember and I want to see it continue. I want us to all work together. But I still can't forget my little friend from Denver. There he is. This fellow writes me letters quite often. This morning's answer was the answer to the last four letters. I can't answer those last four letters.

He writes to me, he pans me about what I haven't done and what I should do. I don't mind that, because it is a constructive criticism. I was sincere when I said that this morning. That is the kind of criticism we need and I like it. Now he is a little oil man. If there is anything like a little man in the oil business -- I haven't found one, yet, but if there is, he is one of them. He is a little oil man.

I like to see the small industry people recognized and given their honest recognition in their dealings with you here.

Now I think this: I think you are really sincere in your efforts to try to give recognition to the small businessman and it has been one of the important factors of improving your public relations position as an industry. I think you can even go a little further in that direction but you have done a lot, and I think that has been an important factor that has improved your relationships public-wise. I hope to see it continue because it is the little fellow who keeps you going, I don't care how big your business gets. It is the little fellow who keeps you going.

Now bear that in mind. I just say that to you because I think the spirit of this council and the spirit of your whole operation that has been going on since this council was organized has been one of an example to me that I would like to see in all the other industries that deal with this department. I hope to have that in all the rest of them.

I wish I could scatter you fellows out among the other council members and spread the word on how to work with folks, here.

We can't have but one chairman at a time, so Walter, we will leave you as Chairman.

(Standing applause.)

CHAIRMAN HALLANAN: The Chair recognizes Mr. Majewski

MR. MAJEWSKI: The joint meeting this morning of the Interior Advisory Council was impressively staged, and I want

to thank you for the little fellows for doing it so well. I think you tried to show the President and Mr. Wilson and Mr. Fleischmann the might and power of these industries. You are to be commended for that.

There is never any suspicion in my heart. I love everybody. I have fallen in love again and it will culminate into something real on June 2nd. But always when I see something as beautifully staged as this my mind goes back many years.

Mr. Fleischmann's lucid portrayal of NPA's functions and responsibilities was well worth the time of anybody coming here. I had not intended to be here because there was a shift in the dates of this meeting and of course I had made some plans to be in the South West to bring in a little well that we hope to bring in but I came here because Mr. Wilson's speech, as enlightening as it was, even though delivered in a darkened room, he worried me. When a man like Wilson, from Government but formerly from business, talked like he did about utilizing industry's muscle, and then suggested that you use "restraint," Mr. Secretary, members, colleagues of this distinguished body, I recall vividly what happened to me 40 years ago. I tried to earn a living by day, piloting a muel-driven tank wagon and by night indulging in the manly art of self defense. prize fighting was illegal, then. So you could engage in

the manly art of self-defense.

I indulged in "restraining" one night and I found myself in the ignominious position of laying on the canvas looking up at a guy smaller than I was. You know, I have contested the word "restraint" ever since. I cannot help but think that that is what might happen to us, now.

I said I wasn't coming here, but Bill Skelley has a plane and took three Republicans and one Democrat and we came to Washington by plane. That is why I am here.

I got a telephone call from one of Chicago's leading newspapers -- "The world's greatest newspaper," so they say. It went to this effect. It said, "Did you know that General Harrison just before he left his duties as administrator of one of the defense functions here, indulged in colloquy with Mr. Bruce Brown in which Mr. Brown, among other administrators, was making a plea that the oil industry demands had increased tremendously and hence there was a further need for steel."

And Mr. Harrison -- General Harrison; I don't know where he got the "General" from -- I want to state this right because a great newspaper told this to me. His answer to Bruce Brown was possibly the way to do it was rationing petroleum products instead of finding ways and means to make more steel available to meet a legitimate demand. Not for stock-piling purposes.

I am wondering if the morning's meeting was for the purpose of softening up guys like me so that I would believe in the word "Restraint"? If it was, Mr. Secretary, then I think you and Bruce Brown should utilize the men in this room and in this great industry to tell the public that there is going to be no rationing of petroleum products in this Defense Effort. I think that is the question I would like to propound to you. If you can see fit to answer it, I know you will make hay with us.

SECRETARY CHAPMAN: I would like to answer that. I would like to answer it this way: I am not a poker player and I wouldn't risk playing at it because that is supposed to be a gambling game. When I play, it isn't even gambling, it is just giving it away.

Let us keep this off the record.

(Discussion off the record.)

MR. WILSON: On the same line, I noticed that the President was complaining about relaxation and then the next two speakers were rather urging the oil industry to relax a little in their demands.

I believe I express the feeling of our industry that as between the two pieces of advice, as long as you tell us that the needs are going up to the extent they are, or as long as your petroleum administration tells us that, we feel we dare not relax and we don't propose to relax.

If the Government thinks we should relax on this, we are going to expect to hear it from you and not from somebody who has the problem of dividing it up.

SECRETARY CHAPMAN: (Off the record.

(Discussion off the record.

CHAIRMAN HALLANAN: Gentlemen, I think we will all recall at the meeting in January, Mr. Bruce Brown, the petroleum administrator for defense was just about getting his teeth into his organizational set-up and to give us an outline of what he thought was ahead of him. In the last three months he has done a magnificent job of bringing together an outstandingly able group of assistants in the PAD organization.

His organization has the complete and overwhelming confidence of the petroleum industry. I think it is very fitting that Mr. Brown should follow the Secretary and give us any further suggestions as to what he thinks we may do to be helpful to him in the enormous job he has very unselfishly undertaken.

I know you will be delighted to hear from him and I have the pleasure of introducing the Petroleum Administrator for Defense, Mr. Bruce Brown.

b fls

wb-1
fls
dm

STATEMENT OF BRUCE K. BROWN

DEPUTY PETROLEUM ADMINISTRATOR

MR. BROWN: Item 9 of the agenda parades our staff. I know that the meeting started late and it is a busy meeting. Since you are going to hear from members of our staff on these specific topics I am not going to cross over a bit on any of those topics. I am going to make my remarks very brief and confine them entirely to things I am sure nobody else will say.

First I would like to talk a little more about the question Mr. Majewski raised. I can neither confirm nor deny what happens in the august halls of these brain trusters down here, or what Mr. Fleischmann called the "intrepid administrators." I will not say anything one way or the other about the conversation but since the question of rationing has been raised and since the Secretary made the pledge I knew he would make, I would like to talk a little more about what I deem the supply situation is apt to be.

There is just one error in the story. They were talking about gas as well as oil.

First I should say that last winter, industry in the Appalachian area was cut off absolutely from gas and there were 35 homes in the Pittsburgh area that had no gas. We rushed supplied of LPG to some of the booster plants in

b3

Ohio -- and I want to thank Standard of Ohio for something they did which kept one community from running out of gas and moving some liquified petroleum gas in there.

The gas situation next winter is going to be awful. Only a warm winter will save us. It was bad last winter. The demand has increased, both the home heating demand and the industry demand. There are lots of defense plants in the area. The carefully laid plans of the gas companies to put new transmission lines in to put gas in the underground reservoirs of the Appalachian area and draw it out and provide further direct supplies of gas, are not going to be carried out. Whether we should have the materials or not we are not going to have the materials in time at lease to do that. That is going to throw a load on oil and those people who have the ability to burn oil as well as gas in eastern industry are going to be yelling for oil, and the gas people are going to be yelling for LPG. We froze a lot of chickens clear down in Georgia last year through lack of transportation for LPG. I am looking for a tough winter. We have been telling them that.

You gentlemen, if you read the papers, know exactly as much as I do about the Iranian situation. Mr. Snodgrass knows more about it than I do and he is going to talk about it later. I don't have to diagram that picture for you.

The one thing I would like to emphasize without

reporters is what I had to say out in Cleveland with reporters a couple weeks ago: The industry takes a long while in planning its full-page advertisements. They plan them months ahead and then they get committed to run them. I am speaking of not only the individual companies but also the OIIC and I just want to say what I said in Cleveland, gentlemen, that some of these statements, "We are the big and strong industry," "We can take care of everybody," they are very dangerous.

The Secretary spoke about the DJ. He didn't speak specifically about committees. I also want to tell the counsel that I realize and so do my associates, that in a certain sense we are living on our fat. Had it not been for the Military Petroleum Advisory Board making an up-to-date survey of the civilian demand year by year, and finishing it last July, if it hadn't been for the NPC Steel Report, if it hadn't been for the Aviation Board getting a report in August, we wouldn't do anywhere near as good a job as we are doing now. Each month that goes by when we are unable to have a good, honest committee system is going to diminish our ability to work.

The reason we haven't appointed committees is because we don't want to appoint committees of the type that have been suggested to us until we have exhausted every avenue of trying to get the kind of committees we think we ought

b4

to have. It is a race, which is going to happen first? Are we going to run out of information and bust up from lack of ability, or are we going to be able to hang on long enough to do the job properly.

Honest, sincere suggestions have reached me, that we ought to have a distribution and marketing division and that we ought to have a manpower division and we ought to have a facilities security division and that we ought to have a section to deal with the OPS. I know those things.

In our Terms Division we have 55 square feet per person allotted. I have moved out of my office and put nine desks in it and I am sitting in the clerical office. Doing that made it possible for me to start a National Gas Production and Processing Division and gave Charlie Webber two offices down on the second floor.

We are limited, gentlemen, not by the willingness of industry people to help us but by the number of desks we can cram in here.

Temporarily we are also limited by funds until the 1st of July, and the Congress hasn't treated the new appropriation yet.

There are a lot of things we know we ought to do. There are a lot of volunteers who have offered their services that we would like to use. But please remember

the reason we don't move ahead on things is that we just don't have a place for the people to sit down in.

Speaking of people, I made the pledge when I took over this job that in recruiting personnel, those who I had to beg to come here from industry, to them I was willing to give an absolute promise as to a definite period in which they would serve and I would undertake to get somebody else when that period of service is over. It may seem like a short time to you. It seems like about 10 years to me, but it is actually six months and I will have to make good pretty soon on some of these pledges.

I do think we have a fine staff but it is mostly a voluntary staff and the enlistment terms are rather short. I will be asking you from time to time for help in replacing the staff.

Finally, I want to discuss briefly the construction order NPA issued last Friday which I am sure you all read, we broadened the ban against construction so that it covered nearly everything and it specifically included pipelines. That might have looked like the grabbing of jurisdiction away from the Petroleum Administration for Defense, but it wasn't. We knew that a construction order was going to issue. We have in preparation here a piece of paper which you must use in Government, of course, to process

construction projects.

I have the two-page written assurance of Manley Fleischmann delivered to me last night that he recognized our full responsibility in the field of oil and gas and that we have only to submit a proper construction order, and all of those authorities which were apparently taken by NPA will be back at PAD. As soon as we can draft the order we will be back in business again.

That is all I have, Mr. Chairman.

(Applause.)

CHAIRMAN HALLANAN: Are there any questions, gentlemen?

MR. MAJEWSKI: This newspaper really had the inside on that meeting. I think I ought to tell you everything when I see you privately but I do want to tell this group of my colleagues that Bruce Brown made a tremendous defense of this industry and that he said that he wasn't going to assume the responsibility and he hoped it never would be his, to begin rationing petroleum to 150 million people in the United States.

As long as we have guys around here like him and fellows like Marshall giving Bruce this encouragement, I don't think we have anything to worry about. But this rationing, General Harrison said that you can always ration, but you don't get the steel.

I think Bruce is too modest, and he can't take a side in it, but he really stood up well for this industry and I know we all want to thank him.

(Applause.)

MR. BROWN: The Chairman suggested that we cover Agenda Point 9.

SUPPLY AND DEMAND FORECAST FOR 1951

MR. BROWN: Mr. Frame is away.

I will call on Mr. Cecil Burrill, Supply and Demand in the United States only and for the years 1951 and the first part of 1952.

MR. BURRILL: In the first quarter of 1951 the total demand for petroleum was 13 per cent greater than during the same period last year. Factors contributing to this large demand were the increase in military requirements, the impetus of the mobilization program on the industrial economy and the large increases in the numbers of automobiles, heating units, diesel locomotives and other oil-consuming equipment.

The gasoline demand was exceptionally high, averaging 13.2 per cent ahead of the first quarter of 1950.

For the year 1951, higher military liftings of aviation gasoline, the operation of five million new passenger cars and the high personal income of consumers will sus-

tain demands at high levels.

The 1950-51 winter weather was approximately 3.9 per cent warmer than normal but even so, the weather was colder than it had been for several years, thereby helping to raise the demand for distillates, to 19.8 per cent above the first quarter last year.

Residual demand was up 3.5 per cent in the first quarter.

Looking at the demand for 1951 as a whole, the prospects are almost as bright as in the first quarter. The total demand for the year is estimated to be 10 per cent above 1950. Broken down by principal products, the demands are expected to be as follows: Gasoline -- these are percentage increases -- 12.1; kerosene, 9.4; distillates, 14; and residual, 7.8, with an average for all products, accrued end products, of 10 per cent.

Total demand in the first quarter of 1952 was expected to exceed the first quarter of 1951 by five per cent.

In order to meet these demands, crude and natural gasoline production, as well as imports, must reach all-time high levels. Domestic crude production for 1950 averaged 5,402,000 barrels a day. For 1951, domestic crude production should average 6,065,000 barrels per day in order to meet the demand. This represents a 12.3 per cent increase

over 1950, but is less than the present production rate of approximately 6,150,000.

Production of this magnitude can be maintained throughout the years. The peak requirements for domestic crude in 1951 occur in the third and fourth quarter and are approximately 6,160,000 barrels a day.

Crude production required in the second quarter is approximately the same as in the first quarter of this year. Naturally gasoline liquids production is expected to reach a high of 580,000 barrels a day in the fourth quarter.

In 1951, imports are expected to average 950,000 barrels per day, up a little over 100,000 from 1950, and 1,010,000 barrels a day, and 1,045,000 barrels a day in the fourth quarter of this year and the first quarter of next year, respectively.

At March 31, 1951, stocks of all products with the exception of residuals were at adequate levels to meet demands. Distillate stocks should be higher in 1951 than in 1950. These stocks were 78,000,000 barrels at the close of the third quarter of 1950. They should be at least 88,000,000 barrels on September 30, 1951.

It is expected that a peak of 95 to 100 million barrels of distillates will be reached in November, 1951, before winter stock drafts begin. We believe the industry

b10

will be capable of storing this amount.

In addition to these primary stocks it will be necessary to have as much secondary and consumers storage as possible at the beginning of the season, in order to avoid difficulties during the 1951-52 winter.

Residual stocks are too low in all districts and an effort should be made to increase them to at least 50 million barrels in the United States by the end of the third quarter.

Even though stocks of the above four major products are expected to be higher by 13 million barrels, on March 31, 1952, than at the same time this year, in terms of day's supply, stocks on both dates were the same; namely, 38 days on the average.

Crude stocks reached a low of 232.8 million barrels on March 24, 1951, and are presently 242.5 million. We feel that total crude stocks should be raised to at least 250 million in the United States as soon as possible to allow a small margin of safety, which does not now exist.

Crude runs are expected to be 6,425,000 barrels a day, on the average, in 1951. This is 686,000 higher than in 1950, or an increase of 12 per cent.

In the fourth quarter of 1951 it will be necessary to run 6,556,000, an all-time high for any quarter.

Based on the increase in refining capacity expected

b11

to take place this year, runs at this level will represent approximately 91 per cent of total capacity, which is almost as much as can be sustained over a long period of time.

It will be necessary to run 6,605,000 barrels a day in the first quarter of 1952 to meet the demands and end the quarter with the stock levels sufficient to carry on in 1952.

Based upon the runs just mentioned the industry is expected to operate at the following rates of capacity -- and these are by quarters: During the first quarter of this year, 93.2. In the second quarter, 88.6. In the third quarter, 90.6, and in the fourth quarter, 91.5, and in the first quarter of next year, 91.

If these runs take place and in view of the stock changes and the demands the yields of products do not seem to be unreasonable, the gasoline yield on the average for 1951 will be a little higher -- 43.4, compared with 43.1 the previous year -- kerosene the same. Distillate one percentage point higher; residual, a little bit less, and all other products slightly less.

MR. WILSON: Are those percentages of capacity at the beginning of the quarter or of the average capacity during the quarter?

MR. MAJEWSKI: I think this is a blueprint that we

ought to know about.

MR. BURRILL: We will make it available.

It will be necessary to reach a gasoline yield of 35.1 per cent in the fourth quarter of 1951. In the first quarter of 1952 it will be necessary to produce 21.9 per cent distillates and 20.7 per cent of residuals.

Now by way of a very brief summary, this forecast indicates the industry must operate in 1951 and the first quarter of 1952 at levels near capacity. In the absence of no more Iranian situation and no more substantial shifts from oil to gas, because of the shortage in gas mentioned by Mr. Brown, we do not see product shortages from a production standpoint.

Although transportation facilities will be taxed in the winter months, spot shortages or tight situations could easily occur because of weather conditions affecting transportation facilities, bringing about temporary product shortages in heating oils and LPG, on the East Coast and the Mid West.

Therefore it is imperative to transport as much as possible to terminals during the summer months. All secondary and consumer storage should be filled to capacity by the beginning of the heating season.

In this way, we believe the industry will be able to meet the demands placed upon it next winter.

CHAIRMAN HALLANAN: Thank you, Mr. Burrill. That is a very interesting report.

MR. BROWN: Mr. Reid Brazell.

TETRA-ETHYL LEAD SITUATION

MR. BRAZELL: I see I am supposed to talk about tetra-ethyl lead.

I think there has been a lot of conversation about it, both by you folks and by us. We made a trip around the country, you know, talking every day for five days about how much there "wasn't" available and it is still that same way.

Perhaps I should give you a few vital statistics about this thing: There are 220 purchasers of lead in the United States. Fifty-four of those 220, using 91 per cent of the total amount. One hundred sixty-six of those 220 used one million pounds or less. To get them off our necks and take care of the little guys provided for in the defense act, we set that up on a one million pound deal so that they would get as much as they used last year, up to the one million pounds.

We have had out of those 220 people, 120 applications for adjustment under Section IV, which is a pretty good percentage. You can see that the refineries are not a bit hesitant about asking for more.

Something else that would be of interest to you, 84 of those 120 were people who got or used less than one million pounds last year, so they plan to increase quite a little bit.

That is about 70 per cent of the total.

However, 36 of the 54 bit ones did ask for adjustments, which is about two-thirds of them.

We have processed out of those 120 applications and sent out, 80 answers. The remainder that we have are mainly made up of real small operators and some of them are people who haven't supplied sufficient information.

Our kitty is pretty well used up but I think it is going to stretch out and do all right.

We have had a number of folks who have told us that the octane numbers had not come down. Well, about every hour on the hour, a few days after the order went into effect, people were not taking samples in service stations and obviously they were not going to get the right answer.

I have talked to most of the big companies and little companies and each one says that they have reduced but the other guy hasn't. I think when we get another survey through in the next short while that we will find the octane number has come down.

We don't want it to come down particularly any more than it just has to. We want you fellows to continue to

b15

devise new ways and means of making higher quality products and put in more equipment if you can to make more high octane products we can use when, as and if it becomes necessary in an all-out shooting war.

I don't think I have much more to say about the subject. If you have any questions, I will attempt to answer them.

CHAIRMAN HALLANAN: Are there any questions, gentlemen, of Mr. Brazell?

(Applause.)

MR. BROWN: Mr. C. Stribling Snodgrass is our Assistant Deputy in charge of Foreign Oil Operations. He is here with us and we have asked him to discuss the Iranian situation.

Mr. Snodgrass.

IRANIAN SITUATION WITH RESPECT TO

Q POSSIBLE EFFECT ON U. S. SUPPLY AND DEMAND

MR. SNODGRASS: Mr. Chairman and gentlemen of the counsel: You may be interested in a little brief historical summary as we see it, of the position in Iran which has received wide publicity in the last few weeks.

The difficulties stem from a drive to nationalize the facilities of the Anglo-Iranian Oil Company within Iran. The company was plunged into turmoil on March 7

when the then Premier was assassinated because he opposed nationalization.

On March 14, the Parliament voted unanimously for nationalization and appointed a committee to work out the details and on March 20, the new Premier, who had been Iran's Ambassador to this country some years past, formed a cabinet and immediately declared martial law to end the rioting which was spreading.

Starting at March 26, strikes and disturbances in the oil fields and loading terminals began to interfere with the normal operations of the Anglo-Iranian facilities. Crude production was in the range of 700,000 barrels daily, at that time.

Just as a thumbnail comparison, our estimates for 1951 indicate that the foreign crude oil production, including some 900,000 barrels a day from Russia and its satellites behind the iron curtain, total about 5,650,000 barrels a day, which comes pretty close to the estimated domestic production of some 5,900,000 barrels a day.

These disturbances continued and resulted in reduced crude loadings at the terminal. The critical point was reached April 14 when labor disturbances brought about a reduction at the Abadan Refinery from its normal operating rate to about one-fifth, with operations being maintained at that level through supervising personnel and

about 3300 Iranians who reported for work. That compares with the normal staff at the refinery of about 30,000. The reduced rate continued for about 10 days with gradual improvements as more men returned to work.

During the period of the reduced runs we estimate that approximately 7 million barrels of products were lost. That much production was lost. It was a loss which we could ill afford in view of the stock position, world-wide.

Crude through-put has continued to climb. According to our information, during the last few days the runs have been near normal, the complete range of products being produced.

Now the heartening news of the resumption of refinery operations was dampened on April 27 when the Premier submitted his resignation. He was a moderate man and resigned in protest apparently to the nationalization bill, it having been railroaded through the parliament without consultation with the government.

Dr. Mosaugus Chairman of the Oil Committee was named Premier and his government repeatedly said that they considered the facilities of Anglo-Iranian were nationalized as of March 20.

They consider this to be nationalization rather than confiscation since they propose to pay compensation to

Anglo-Iranian for the changes they desire to make.

It is impossible to predict the course of events in the weeks to come since the entire nationalization program has been accompanied by a high degree of emotionalism. In this type of atmosphere possible further interruptions including reduction of refinery operations are definitely within the realm of possibility.

It seems quite certain that the interruption to the operations at _____ were directly attributable to communist activities. They seem to be doing pretty well at the moment. When they choose, they can move again.

As mentioned earlier, the partial stoppage resulted in the loss of some 7 million barrels of products to the world petroleum trade.

The impact of this loss according to our information resulted in a flurry of inquiries looking to product purchases on the United States Gulf, East Coast and West Coast of the United States.

You are all familiar with the position of the PAD regarding the need for expansion of refining facilities. You heard further of that today.

The Abadan stoppage highlights the stoppage in world operations and points up the fact that there is not available any appreciable cushion to make up for a loss resulting from the shut-down of any major refining facility in

the world.

Rapid growth of demand in the foreign areas as well as at home has pushed foreign refineries to operate at all-out rates.

You might cite the case of the European refining program which only two years ago appeared to be very ambitious indeed and is now coming into operation, oil plants operating at capacity for the most part.

In view of these factors and in view of the growing dependence on oil in the rearmament programs, the Government is watching the Iranian middle eastern situation closely and with great interest.

Last week we met with representatives of United States companies operating abroad to consider possible remedial action -- action to assure the maintenance of adequate supplies of petroleum products for essential use. A draft of a voluntary agreement has been drawn and generally approved by the companies concerned. We hope by the end of this week to have a completed draft of a voluntary agreement which can then be carried forward to the Justice Department.

Thank you gentlemen.

(Applause.)

CHAIRMAN HALLANAN: Are there any questions you desire to ask Mr. Snodgrass?

MR. RUSSEL BROWN: I wonder if I could ask one question of Mr. Burrill, first. I notice Mr. Burrill estimated the increase in imports. I just wanted to make an inquiry upon what that is based. How did you determine the increase?

MR. BURRILL: It was determined upon the much higher levels of demand in the United States, on United States crude and that is all. It wasn't a residual figure. It wasn't a mathematical calculation, if that is what you have in mind.

MR. RUSSEL BROWN: Thank you, Mr. Burrill. I just wondered. I didn't find any basis for that because our domestic situation is more favorable than it has been for sometime.

Now, Mr. Snodgrass, you working with the Materials Division, have you made estimates of steel requirements for oil production and refining outside of the United States?

MR. SNODGRASS: Those estimates, Mr. Brown, are made on the basis of the requirements which are presented to us by the companies operating abroad, which requirements are considered in the light of programs approved, not just by PAD but by an inter-agency group comprising the State Department, the Defense Department, the ECA, the OIT, the National Production Administration. After those general programs have been approved, then consideration is given within PAD

of the possible impact of those foreign material requirements on domestic material requirements for gas as well as for oil.

MR. WILSON: Obviously the replacement of the Adadan capacity will be difficult and slow. How about replacement of the crude. How much of that 700,000 barrels a day if it should be cut off could be quickly replaced by other foreign sources, and particularly middle eastern sources? Is there a substantial spare producing capacity if you have the Tangiers and all to take care of most of that.

MR. SNODGRASS: Yes, sir. That is assuming that the action which caused the stoppage of supplies from Iran would not affect the adjacent producing areas.

MR. WILSON: Would you say most of it could be replaced fairly promptly?

MR. SNODGRASS: Yes, assuming materials could be there.

MR. RUSSEL BROWN: I am not sure you brought out sufficiently definitely that the question is refining capacity. The thing we hate to lose most at this time is refinery capacity. You can not do anything but wait a couple years to replace that.

CHAIRMAN HALLANAN: Are there other questions?

MR. DUKE: I would like to correct a statement I made in a recent letter I wrote to certain people in this room. That is that the Iramco concession was extended for only an

additional six months. I got that information from Constantine Brown. I find what they really did was re-affirm the Iramco concession for the full period to 1993, and what Constantine Brown referred to was the renewal of the airport agreement at Iran. I wanted to correct that. I will have to send another letter to the same people.

CHAIRMAN HALLANAN: Thank you very much, Mr. Snodgrass.

MR. BROWN: Mr. Dene B. Hodges, Director of our Transportation Division.

REPORT OF TRANSPORTATION STUDY

MR. HODGES: I think a number of you know that we have been conducting a rather detailed study of the transportation requirements of the industry. Some of you may have wondered why that was necessary in view of the National Petroleum Council's report. The reason is that we are looking ahead into 1952. Mr. Spencer's excellent report covered the situation at the time it was submitted and has been serving as a basis for what we have been doing to date. But we were most anxious to document the needs of the industry for all types of transportation facilities far enough in advance so that the necessary lead times on materials could be immediate.

We have had to go into the question of estimating demands, both domestic and to some extent foreign, because foreign demands enter into the Tangier requirements picture.

We have some 20 people who have been working on that study since the middle part or the latter part of February under the direction of John Boatwright and Minor Jamison both of whom have been borrowed on a consultant basis. Some are personal employees who will remain in the Supply and Transportation Division after this study is completed.

The experts, if you will, have been borrowed from industry and will be released to their companies when the study is finished.

The work to date has consisted mainly in determining supply and demand, looking ahead as far as we feasibly can, breaking that demand picture down into the areas that are necessary in order to relate pipeline transportation to that demand, in respect to products lines; tank cars, trucks and all the rest of it.

That phase of the work is now just about finished and we hope over the next 30 days to be able to translate that into transportation requirements and come up with a picture on the requirements of the petroleum industry that will be so thoroughly documented that we hope NPA cannot question any of the things that we ask for insofar as the essentiality of those facilities is concerned.

I would like to say a word or two about storage. We have been getting a great number of requests from various countries asking for priority ratings on storage projects.

We are making every effort to get additional steel for storage construction. Actually, during the first three or four months of this year, the tank fabricators suffered rather badly, I think. We have refused to adopt the policy of trying to rate individual projects on an essentiality basis. It wouldn't make any more storage available to industry because we leap-frogged one storage tank over another. Our best bet is to get enough steel so that the tanks that are on order can be built at an earlier date. The best information we can get is that the industry would like to build something like 80 million barrels of storage. If we start trying to process each individual tank that is involved in that, we get into a tremendous job that we just won't be able to handle.

We do have, however, two storage projects that we are attempting to program, and do something about. One is storage at terminals that are close to navigation during the winter season. That will not be an individual project or will not provide an individual priority but we hope we can arrange some kind of a program that will assure the erection of storage at those marine terminals this summer in time to assure that storage being filled before next winter's demand.

I think that offers probably the greatest saving in transportation of any storage facilities that can be put

up.

The other project that we are only now getting started on concerns pressure storage for liquified petroleum gas. And there again we hope as an industry matter that we can get preference given to steel for that type of storage because again that offers a great opportunity for transportation savings if it can be erected in time to be filled when tank cars are available this summer rather than having to depend upon tank cars next winter for maintaining the supply in outlying areas.

I think that covers the major projects of the Supply and Transportation Division right now.

Thank you, gentlemen.

(Applause.)

MR. SPENCER: You mentioned the fact that the PAD study group is carrying out a study of transportation and it is well underway.

Will that study in whole or in part be made available to the NPC transportation committees to work on the transportation problems of the million barrels, and so forth?

MR. HODGES: We hope we can make a great part of that study available to industry generally. It is something industry has to deal with. It won't do the Government or industry much good if we have to keep it locked up. Parts of it will undoubtedly be restricted and parts will perhaps

even have a higher classification but the basis of it we hope to be able to circulate pretty widely and certainly anything that is not classified beyond the restricted range I should think the NPC Committee could certainly see.

MR. SPENCER: To the extent that that is possible it will not only save a lot of time, it will save a great duplication of effort and I urge PAD go as far as they can in that direction.

MR. BROWN: We are having distributed now a document we got up primarily for the congressional committees but I thought you might be interested in it. If you are not you can leave it. The last sheet of it shows our organization chart.

The most interesting part of it I think is that we have shown division by division the name of the individual filling a job, the name of the job, whether he is a without-compensation employee or a classified employee, and where he came from.

I am awful proud of that part of it because, well, it shows up best in the large divisions like the Materials Division. Look at the Materials Division. You will find that this staff we have is not dominated by any group but is very broadly and widely spread out. We got it up to show that as a simple truth. We have been complimented a

little bit by some of the Congressmen who were amazed when they read some of these names and some of the places these people came from.

We hope to keep it that way as long as we have to have one of these things.

Mr. Elmer Batzell, who was Special Assistant to Ralph Davies in the last conflict is now our Finance Counsellor. Mr. Batzell is going to talk about Necessity Certificates.

REPORT ON NECESSITY CERTIFICATES

MR. BATZELL: This Necessity Certificate situation must have appeared to some of you as the off again on again gone again Finnigan arrangement in some respects and to certain respects that is very much the case.

I want to outline today to you just a little bit, however, what we have done and why we think we have done that.

As you know, the final recommending authority with respect to Necessity Certificates rests not in our hands but rests at the present time with the Defense Production Administration.

It was transferred there from the NSRB and in the process of the transfer, a very important segment relating to problems of termination was casually omitted from the delegation of authority and that rests no place at the

particular moment.

Talking to the affirmative side, however, we have attempted to develop here by branches of the industry, a series of standards by which we could process the applications for Necessity Certificates within the statutory provisions of the amendment to the Internal Revenue Code.

We have tried to do that on the basic principle that the job was to equate so far as possible the financial risks, the financial hazards, back to the pre-Korean tax structure. In other words, maintain to the extent possible the same incentives to install new facilities or erect new construction as existed prior to the present conflict in Korea and prior to the recent amendment to the Income Tax Law raising the general rates.

We have done that for each branch of the industry through a series of standards, and those formed what we call our basic standards which we apply in the processing of cases and through which we determine those partial amortization recommendations, the percentage recommendations, in other words, that we recommend to the PAD.

That was done first for refining and has been followed by standards for transportation insofar as the PAD has responsibility for transportation. It is also by standards for natural gasoline recovery and there is in

the process certain specific standards for gas transmission -- pipelines.

Now those basic standards are the standards which will be applied across the board in this attempt to equate out this economic adjustment created by the revised income tax law.

There will be specialized circumstances where particular facilities have shorter economic or physical life which we recognize to be very real aspects of our problem in meeting supply. In those circumstances, the standards generally call for higher percentages than the base percentages to which I have made reference.

Now all of this percentage arrangement is perhaps a little unfamiliar. It existed only in the last phases of World War II, but the statute at this time was very specific in terms of the authorization of these partial certifications and undoubtedly are aware from the reports of the Maybank Committee and elsewhere, that considerable attention is being given by the Congress to this handling of the Necessity Certificate problem.

It is our belief that if we can provide common standards which maintain the incentives, we are discharging precisely what the Congress intended to be discharged when it wrote that Necessity Certificate amendment in to the income tax laws. We propose, so far as it is possible for us to do so,

to maintain these standards consistently in our operations.

There will, of course, be modifications in the future of these existing standards as we face more and more the particular programs with which you are dealing. But the basic principles will, I believe, be maintained the same in the absence of the statutory amendment.

We think that we have developed here a system which is completely sound. We feel from the remarks that have been made in other agencies that we have developed a system which will probably serve as a guide post to many others which have no, at least reasonable basis for handling this problem and have been so bitterly criticized therefor.

We propose as soon as it is possible to do so -- and it is in process right now -- to bring together all of these separate sets of standards, put them into a nice contact form and make them available so that in actuality and in reality, everyone can understand precisely how we are doing it and why we are going it.

Thank you.

(Applause.)

MR. BROWN: Are there any questions of Mr. Batzell?

MR. SKELLY: Does your organization recommend or favor the money used for these facilities being borrowed from the Government? Where the industry spends its own money, do you give them a break tax-wise?

MR. BATZELL: I believe it is much better not to borrow from the Government if it is possible to avoid it. With regard to the Necessity Certificate, it is on the same basis whether you are borrowing from the Government or not. The problem of a loan risk, and the taking on of an economic hazard is the same.

MR. SKELLY: You wouldn't differentiate when the company borrows from the Government?

MR. BATZELL: No.

MR. SKELLY: What percentage of these expenditures are Government borrowings?

MR. BATZELL: As far as I know, at the present time, I think there are only three defense loans.

Mr. Brown tells me that there are two for the Air Force and one to rehabilitate allocation plants.

MR. SKELLY: I wonder if it wouldn't be embarrassing for the industry to be borrowing too much from the Government and getting too much of a tax allowance. Is there anything in that?

MR. BATZELL: I think at the present time we have been awful tough from the credit standpoint here and we propose to continue that way.

One point is that insofar as a facility such as a natural gasoline plant is concerned, it might be entitled to a depletion allowance also. It has been our policy

not to recommend the accelerated amortization if the facility is depreciable. If the operator so elects to take it, then it is treated as any other facility.

MR. SKELLY: It seems to some people that perhaps it is unfair competition to borrow from the Government and get a big tax reduction. Is there anything to that?

MR. BATZEL: We haven't had the problem of anybody borrowing a lot of money from the Government. I am hopeful of not getting that.

MR. MAJEWSKI: Is the answer no?

MR. BATZELL: On the loan side of it?

MR. MAJEWSKI: No, on the amortization side.

MR. BATZELL: No, that is not so.

MR. MAJEWSKI: There is still some hope for people who invest their own money, then, for war purposes, that there might be some "yes's".

MR. BATZELL: So far as the Necessity Certificate is concerned, the answer is yes, if you meet the standards.

MR. MAJEWSKI: I wondered if Mr. Skelly was perhaps referring to the RFC?

MR. BROWN: I would like to talk a little more on it because it is an interesting topic.

Elmer has told you that we have rejected all loans except three, two related to storage that was going to be built for lease to the Air Force -- maybe it was the Defense

Department. The other was to rehabilitate an allocation unit. We will make loans to rehabilitate allocation units.

First I should say this, and it seems to be widely misunderstood: The Defense Production Act provided money that could be loaned. The only money we have to recommend to be loaned is the money in the Defense Production Act, and by definition in the Defense Production Act you can't make such a loan unless the man can't get the money anywhere else and you still think that it is essential that he build whatever it is he wants to build.

We have taken the position and I hope we can stick with it, that while we need basic refining capacity -- and we have said we do -- that we don't need it so badly that we ought to take dollars that the Congress intended to use for rockets or for making trick airplanes, and just build up the petroleum economy of the country with defense dollars. We think industry ought to be strong enough and virile enough -- and I mean both the small and large segments -- to build their refineries without using bloody dollars.

Now the RFC is a banking institution and will only loan a certain per cent of the financial investment. We think that is fine. We have recommended favorably quite a few projects. We have said, "It is all right for you

to loan them money in our opinion because they are going to contribute to the program," but those are bankable types of loans and we hope to stay on that basis.

We have turned down, of course, all loans for production. We wouldn't make a loan for production because we don't think the thing that is holding back production in this country is lack of money. It is lack of material.

MR. SKELLY: I was not thinking of the RFC at all. We have never borrowed any money from the Government. We did try once and failed, way back in Bruce's day when they were making these loans to anybody, regardless of how sound it was. I am not speaking from the standpoint of a borrower. We might want to spend a little money and add a small facility, but I am wondering if the tax situation would be just as good where you spend your own money as where you borrow from the Government. This taxing is a pretty involved thing and I was wondering if the little fellow who spends a small amount of money would get as favorable a tax consideration -- talking about five years amortization on that sort of thing and building up refining capacity -- anybody can come to the Government and put in an application to build refineries, or pool halls or hotels or a lot of things.

I wasn't thinking about the RFC. I don't think it is a banking proposition, at all -- I didn't intend to get

facetious about this thing, but I just expressed myself in a mild way that I wanted the small operator to get the same break as the big fellows.

You know, during the last war the Government loaned a lot of money and then after the war was over they bought these facilities for little or nothing, and I mean little or nothing. I didn't think that was very fair competition in a free-wheeling economy for the fellow who didn't have those loans to be able to buy something for a very small amount. I just wanted to bring up something for you to think about. I just hope you are not going to loan a lot of money to a lot of these fellows who are getting out of the gambling business, now, they may be wanting to borrow some money to build a refinery.

Pardon me for bringing up that question but it might be something worthwhile to think about.

(Applause.)

MR. MAJEWSKI: Could I ask Mr. Brown this question: Do you have the limit of applications in on this million barrels of expansion?

MR. BRUCE BROWN: It takes a long while to go through and make all your computations and make your decisions. What we did do was add up the numbers and we found that the total barrels of basic refining capacity for which certificates had been requested was over one million barrels.

It will take us weeks -- I don't know just how many weeks, but weeks -- to dig through those things and process them.

MR. BATZELL: There is another factor in it. For example, DPA lost a lot of files and they are just coming over and that is going to add to those weeks.

Another factor that is in it is that with the material situation as it is and with the construction order issued by the NPA as you know, and with ourselves being in the position of issuing another one, there will probably be a gearing together to a closer extent of the actual barrels in the ability to get the plants going, actually, in terms, than there has been in the past. Both of those factors will have some bearing on it.

MR. BRUCE BROWN: Mr. Frank A. Watts works 85 hours a week except some weeks he works 90.

I don't think anybody will ever know, who hasn't been here watching him, how much the industry owes to Frank Watts. I take great pleasure in introducing him.

(Applause.)

REPORT ON MATERIALS

MR. WATTS: Thank you, Bruce. I don't feel worthy of the compliment you have paid me.

Last January when we met in this same room, we forecast that in the months just ahead, that we were going

through a rather dislocated and probably somewhat chaotic period with respect to materials because we all knew that the demand for materials during the period we have just been through and the period we are just going to go through is considerably greater than the supply.

The forecasts were made then, of course, and have become realities. It is my prediction today that probably until November of this year we will be going through a period of dislocation which at times will reach a rather chaotic stage, insofar as materials are concerned, because of a greater demand than supply.

That of course is just part of the price we pay for the privilege of living in this country, and it is a result, of course, of the different competing forces vying for materials which they regard as being extremely essential in their particular industry or line of endeavor.

We heard this morning, of course, from President Truman, from Charles Wilson, from Secretary Chapman and from Manley Fleischmann, all speaking either directly or indirectly with respect to materials. Some of the things they said make it necessary or advisable for me to make one or two remarks that are going to affect your businesses and relations with Government in the period just ahead.

Last January we talked about tubular goods and the need for increasing the supply. The result was M-46, which

not only was the instrument that made it possible for PAD to provide procedures or work with NPA, who in turn worked with the mills to provide procedures to increase the production of oil country tubular goods, but became the medium of effecting distribution of such oil country tubular goods as were produced. The production of oil country tubular goods last year, most of you will remember -- when we discussed the figure before it was an indefinite one that has become definite since then.

The United States production of oil country tubular goods both for domestic and export and Canadian use averaged about 144,000 tons a month during 1950. You gentlemen will remember that it dropped down to about 129,000 tons a month in January and February of this year. It was during that period that PAD was working aggressively with NPA in an effort to reverse the trend. It started backing up in March when it just crossed the 130,000 mark, reaching about 132,600 in April and 142,600 in May, and will reach, based on the best information available to us now, 156,600 in June.

The program quantities of oil country tubular goods that will probably be made available for distribution through PAD both for domestic, export and Canadian use, and including the Elk Hills Naval Reserve of California, and a very modest amount for brine and sulphur wells will

probably be 150,000 tons minimum in July, August and September. That figure has not been confirmed as yet but it may be during today or not later than tomorrow.

M-46 not only provided procedures to effect distribution of oil country tubular goods, both for wildcat, from emergency stocks, but from the normal mill rollings.

Dick Lawton, whom I saw over here some place a moment ago, has of course been the custodian insofar as control of distribution is concerned. I commend Dick Lawton for playing in the middle of the field and staying in the middle of the road and doing what I interpret and I think all of us interpret from the remarks I have heard from you gentlemen, a splendid job with regard to effecting distribution in the most equitable way possible.

(Applause.)

Materials Division, of course, serves the Purchasing Department and goes all-out to get a supply of materials in the warehouse from which operating divisions make determinations as to who gets how much and when and then it serves as a warehouse department in effecting distribution of the materials.

M-46 included, of course, MRO provisions, the maintenance, repair and operating provisions, and took the petroleum industry out of the quota restrictions which would have been necessary under Regulation 4. It is

realized, of course, fully by everyone that it is not practical for petroleum operators, oil and gas operators, to conduct their operations insofar as maintenance, repairs and operating supplies are concerned on a quota basis and thereby the industry is relieved of that burdensome task.

M-46 will be amended soon at which time some of the MRO restrictions will be changed and the industry will be relieved of about 50 per cent of the paper work that is now necessary under the present M-46 order.

Mr. Brown referred to the construction order, M-4, which, of course, if anybody started the drilling of an oil or gas well after midnight Friday, up until last evening, and would require in the use of the drilling of that well more than 25 tons of steel, I believe probably your legal department will tell you that you were in violation of the law.

The letter that Mr. Brown referred to, of course, is one that clears that question and it becomes necessary, as Mr. Brown again suggested, for PAD to move forward finally with a project application order and form. The form had been prepared and ready for issuance for a considerable period of time but PAD did not want to release such a form and accompanying order until it was found absolutely necessary for the conduct and carrying out of

the oil and gas industry. That order will doubtless be released probably the latter part of this week and maybe not until next week.

The project application form will appear and the order will probably be M-46-C.

CMP Regulation 2 is about to be issued. That is one of a series of six regulations under the CMP program, the controlled materials program. CMP Regulation 2 is an inventory limitation order forbidding anyone to have on hand more than 45 days' supply of materials of the forms and shapes as produced originally by the mills.

Quite obviously, that imposes on oil and gas operators the situation that is impossible to carry out. So in order to relieve the oil and gas industries of the necessity of reporting materials on hand and making available those things for sale to someone else that is in excess of a 45-day supply, PAD will provide for the oil and gas industries an inventory reporting program, an accompanying order which will not impose on the industry the restrictions that would be as impossible to carry out as the 45-day restriction order would be.

During the fourth quarter of this year as was announced by Mr. Fleischmann, we will doubtless go into a complete controlled materials plan, at least insofar as essential industries, including oil and gas, are concerned.

Just what we may do with respect to the third quarter of this year is still unknown. Whether, insofar as some industries, including oil and gas, will go into a controlled materials plan completely or partially is yet unknown. It is believed, however, that insofar as essential oil and gas operations are concerned, that materials will be available in sufficient supply for carrying them on. We know, of course, that there will be in the third quarter of this year a desire or willingness on the part of the industry to use more materials than it will be possible to make available for their procurement and use. Supply and demand will continue out of balance and it will be necessary for the industries during the period ahead to continue to conserve the use of materials to the utmost extent and to use these in the most efficient manner they can and to put the most essential needs ahead of the less essential needs. It will not be possible under any conditions as far as we can visualize now to take care of all the material needs of the oil and gas industries of this country during the third or subsequent parts.

Just how nearly we will be able to bring supply and demand in balance is difficult to forecast at the moment. PAD is going all out to justify the minimum needs of materials for the industry and to provide procedures to effect their distribution in the most equitable way pos-

sible.

While I am on my feet I would like to express before this group my appreciation for the wonderful help that Elmer Batzell gives to PAB in the preparation of orders that I think are regarded in Washington as being exceptionally simple and understandable as they affect the distribution of materials in the oil and gas industry.

Unless there are any questions, that is all.

MR. JACOBSEN: There is one thing I want to ask about which is pipe. I will start off by saying that I know perfectly well no matter what you do you cannot possibly satisfy everybody because there isn't enough pipe to go around.

dm
fls

Cochran
Millar
fls.WB

No matter how much care you exercise, you will have a lot of people who do not think they get the amount of pipe they should have.

We would like to know about consideration of some of the elements that should go into the distribution of pipe where it is needed.

First, the thing that should determine, I think, the distribution of pipe for any operator is what he needs this year, not what he needed last year. Last year is taken as a base. It is true the operator has to justify his needs this year also, but if an operator, for instance, happened to be in a position last year of having ended up the year with very little inventory because he is through driving his proven locations, then that operator would have an easier time getting pipe this year than the fellow in just the opposite position.

I would make a play for the greatest possible consideration for the proven need for this year and in 1952, incidentally, when that time comes. And, furthermore, with respect to inventories.

Lists of inventories supplied on the questionnaires that you send out, in fuel tonnage and so on, do not nearly tell the picture. Obviously anyone has to have, if he wants to continue operating, a working stock.

Now, an outfit that happens to be working in twenty or

thirty different places, obviously will need more in the way of working stock than a company that operates in one-fifth or one-sixth of those places. My only plea is that realistic weight be given to those two elements, the actual proven needs for this year and also a realistic appreciation of inventories. Not only the way they may be scattered. I do not mean I am making the plea that you should not transfer from one place to another if you can. We have all done that. We have hauled pipe from Louisiana up to the Rocky Mountains and so on, but the mere tonnage figure doesn't necessarily give the proper picture with regard to the operating facilities that a company must have.

My only plea is, as I say, that the needs for this year rather than last year be given the greater weight and also that realistic appreciation be taken of inventories to the extent that they apply to operations in scattered territory.

MR. WATTS: You, of course, were speaking about oil country tubular goods and I suggest that the division serve as a warehouse department and I believe Mr. Brown is on his feet to speak from the operating standpoint.

MR. BRUCE BROWN: Can I answer your points as they come along or do I wait?

MR. JACOBSEN: No, you better wait. I have one more question with regard to that same thing. Mainly, if we get a certificate for the purchase of pipe on Monday night, that

m3

doesn't mean that we have the pipe on Tuesday morning. In other words, the inevitable lag that will have to occur between our getting the right to buy the pipe and the delivery of the pipe, that has to be taken into account too.

MR. BRUCE BROWN: I was going to introduce Mr. Lawton. Mr. Watts started it and you are continuing and I guess maybe I have waited too long.

Some of the remarks I was going to make may not be in direct answer to your question, but I will make them anyway and I will get to your question.

We have another man who works eighty to ninety hours a week. He made a mistake of getting a house out in Chevy Chase, which, as you all know, is right over the District Line, so he lives at a hotel down here so he can do his work properly.

He is the man who has had to confront 2700 drilling programs, and it would be repetitious, but it is worth repetition; he has been playing them right down the middle. This is a tough situation and there isn't enough pipe, and we have to force the fat boys to use their inventory.

If you all feel too bad about it, maybe you didn't read the fine print in the NPA order and you all probably ought to go to jail in a way for having it more than 45 days.

Now I will call on Mr. Lawton.

MR. LAWTON: I think I should probably preface my remarks by saying that in the third quarter we were astounded to find that we totalled up the PAD 17's and there was a demand for 1,200,000 tons of tubular goods in the third quarter. We had roughly 350,000 tons to distribute.

MR. JACOBSEN: That is where the loaves and fishes come in.

MR. LAWTON: We started looking around for more information. For instance, we had 600 requests from people who did not drill any wells in 1950. So we composed a letter and set up a supplementary period of two weeks for those folks to come back. We sent out a letter asking for the date of their lease. In the process we lost five hundred of them. We did that for this purpose, to give you your steel and not the black market operator, the man who just wanted steel.

We found, lo and behold, that there were inventories of a six months' operating supply, plus twenty months beyond that, in some companies. We didn't think that was fair.

We arrived at a ninety-day inventory position as being fair. Then we took API figures and granted a ninety-day working supply to each company in the United States. We added to that a ninety-day inventory of the same amount and that was the primary allotment to each individual operator in the United States, regardless of his size.

Now, we realize just what you said a few minutes ago,

m5

that producing programs don't stand still. You would be surprised at the number of folks who came in who told the truth, who reduced their program. Some people had to expand their programs and some just expanded them. We had to get that water out of it. We are now in that process.

We have asked for maps, cover letters stating what your problems and your positions are, and I can tell you, sir, that if you are entitled to the pipe, you will get it.

Now if, after we have made these expanded program allocations, we find that an individual inventory is still too high, he will not get any steel except that if, on the point you pointed out, he does have some weights in grades and sizes that he is short and cannot get along without, in spite of his excess inventory we will allocate it to him, sir.

In just the last two days, we finished granting some extra steel to California and the Gulf Coast where we know extra allocation is necessary. Those allocations went out yesterday. We are going to go through with the supplemental allocations and have them out on the 21st of May.

We are going to make some mistakes, we know that, but we are going to try to cut them down the middle and give everybody their part and that is all they are going to get.

Thank you.

MR. FRAME: There has already been considerable discussion about the steel shortage with which I am sure you

46

are all familiar. As part of a program that should aid in helping this over-all steel shortage, there is the problem of increased scrap collection. The NPA has established a branch which is responsible for stimulating increased recovery of scrap. Mr. Grebb is here and I would like for him to explain the problem to you. Mr. Grebb.

MR. GREBB: Gentlemen of the Council, a few weeks ago when it became apparent that increased expansion of steel production facilities could not be utilized unless ample supplies of iron and steel scrap were made available, National Production Authority asked me for the fourth time to come back to Washington and formulate an iron and steel scrap program that would assure adequate supplies to meet the expanded steel production facilities.

To quickly give you the picture and by comparison, let me say that there are a great many of you who are quite familiar with what took place during the war in our all-out scrap drives. At that time, the largest consumption of purchased scrap by the steel industry amounted to 24.5 million tons. Last year, purchased scrap amounted to 29.5 million tons, or an increase of five million tons over the greatest amount consumed during the war years. This year, purchased scrap requirements are estimated to be at about 32.5 million tons, and that does not include any stocks or any increase in inventories for operations next winter when collections fall

m7

off.

As of today, the industry has an approximate supply of 21 days, with the exception of the United States Steel Corporation, whose inventories as of yesterday ran from five to twelve days. Foundries throughout the nation are on a hand-to-mouth basis.

In order to put a program together quickly and efficiently, we concluded that industry could do this job itself and with the least number of government employees. Therefore, Mr. Manley Fleischmann requested Mr. Brown and PAD to assume the responsibility of getting the scrap out of the petroleum industry.

In that connection he appointed a committee composed of Mr. Frame, Mr. Rather, and Frank Watts.

In order that you may understand the emergency of this situation and will take immediate action about it for Mr. Brown and his committee, I want to ask the particular head of each and every operating company to see to it that within your organization -- and a great many oil companies have marvelous salvage programs -- to speed it up and if you don't have a salvage committee, appoint one and give the chairman of that committee some authority and let's go over every inch of every property and every warehouse and let's look twice. If it is scrap, or dormant scrap, it is the Mesabi iron range, and we can use that Mesabi iron range because of its condition now.

This is a long-term job because we have some new facilities coming in in July, additional facilities coming in in January, additional ones next year in July, and in 1953 an additional three million tons of purchased scrap will be required.

To get this over-all job done, we want to ask you as individuals and members of the Council to give this your very careful consideration and set up a type of program within your respective companies that will bring this scrap in and put it into material supply lines at the earliest possible date.

The government itself, through the military and at the request of Secretary Marshall, is combing every property; all the railroads are combing their properties; all public utilities; all mines. We are making every effort to get scrap out of the South Pacific, out of Korea and out of Europe. We are not leaving a stone unturned to provide these raw materials.

Having been associated with the petroleum industry for 25 years, I think I can safely say that when you know what is required, why the requirement is necessary, you will proceed to meet that requirement most efficiently.

Thank you.

(Applause.)

MR. SKELLY: I wonder if the gentleman would explain

m9

the method of selling this scrap?

MR. GREBB: The sales should be made through normal channels, the scrap dealers who have the equipment to properly prepare this scrap to the specifications of the mills and foundries and indeed their facilities are excellent at this time for that purpose.

MR. SKELLY: Could we get tubular goods from them? You have to go through those particular dealers, is that right?

MR. GREBB: Yes.

MR. SKELLY: You have to take what they will pay you for the scrap, is that the idea?

MR. GREBB: Yes, the price of scrap has been pegged by the Office of Price Stabilization.

MR. SKELLY: What is it now?

MR. GREBB: By comparison with the last world war it is slightly over double, number one heavy melting, Pittsburgh, is \$44, Pacific Coast \$45, and basic points have been set up and the schedule all arranged for all of the acceptable grades by mills and foundries.

MR. SKELLY: You can't work out a scheme whereby if you sell to the scrap man in your territory, if you know him pretty well, see, you can't work out a deal where he will return that to some steel company that supplies you pipe and get a little extra of this conversion pipe.

MR. GREBB: With respect to my position, that is only

m10

bringing the scrap to the dealer.

In the Steel Division they have a scrap unit. The scrap unit there is charged with the responsibility of allocating scrap to mills in order to keep everyone running but not for the purpose of exchange, barter or otherwise.

MR. SKELLY: That clears it up because I have heard it said that you could trade with the steel companies if you wanted to get a little extra conversion pipe from them.

MR. GREBB: That, sir, I am not acquainted with.

CHAIRMAN HALLINAN: Mr. Brown, that concludes the presentation by your staff?

MR. BRUCE BROWN: Yes.

REPORT OF COMMITTEE ON LIQUEFIED PETROLEUM GAS

MR. WARREN: I really thought the Secretary came in here to learn a little more about that fast growing winter demand for liquefied petroleum gas.

The Committee on Liquefied Petroleum Gas, appointed to make a study of the demand for liquefied petroleum gas by states for the months of December, 1950 and January, 1951, has completed its assignment.

A summary of the study is attached. Upon representation that the need for the data was too urgent to await formal presentation to the Council at this meeting, a preliminary draft of the survey already has been placed in the hands of the Supply and Transportation Division of the Petroleum

ml1

Administration for Defense.

While the summary speaks for itself, the committee would like to make certain explanations and observations.

The original assignment called for a study of "demand" by states in the two months. In subsequent discussions with members of the Supply and Transportation Division of the Petroleum Administration for Defense, it was pointed out that the severity of the weather in those two months created such a current shortage of liquefied petroleum gas that any attempt to obtain demand figures from suppliers undoubtedly would result in such a duplication of gallonage figures that the survey would be of little actual value. It was agreed that the most logical approach would be to request suppliers to furnish information on the basis of shipments into destination states.

A questionnaire bearing no identification other than a code number was mailed to 145 suppliers, with the request that the data be sent direct to Council headquarters, to the attention of Mr. James V. Brown. The Committee is indebted to Mr. Brown and his staff for undertaking the confidential and tedious task of compiling the figures and preparing the summary.

The committee is pleased to report that 115 replies were received; also that a majority of the 30 who did not reply apparently neglected to do so under the impression that a

ml2

reply was not necessary since they made no direct shipments. The summary includes the figures of every direct supplier of liquefied petroleum gas in any appreciable quantity to whom a questionnaire was sent.

Mr. Chairman, I move the adoption of this report.

(The motion was seconded.)

CHAIRMAN HALLANAN: Are there any questions?

MR. WARREN: To relieve your mind on this gasoline rationing, we would be very happy, in the summertime particularly, to furnish the demands of propane for any buses or cars in your district.

MR. MAJEWSKI: You are already doing it.

CHAIRMAN HALLANAN: The question is on the report submitted by Mr. Warren. All in favor signify by saying "Aye." Opposed, "No."

It is so ordered.

Gentlemen, at the last meeting we appointed a committee in response to a request of the Oil and Gas Division on the materials and chemical requirements of the oil and gas industries. The chairman of that committee is Mr. Reese H. Taylor. An interim report was submitted and because of the urgency of the subject that was under investigation that report has been sent to you under confidential notation.

Mr. Taylor, will you at this time present the report to the Council for final action?

ml3

REPORT OF THE COMMITTEE ON MATERIALS AND CHEMICALS
REQUIREMENTS OF THE OIL AND GAS INDUSTRIES

Mr. Taylor. In response to the request contained in the letter from the United States Department of Interior dated December 1, 1950, signed by H. A. Stewart, Director of the Oil and Gas Division, addressed to the Chairman of the National Petroleum Council, and the further indication from the Director of Materials and other representatives of the Petroleum Administration for Defense, at the meeting with this committee on January 31, 1951, lists of materials and chemicals in short supply, in prospective short supply and by segments of the oil and gas industries have been compiled, based on a survey by each of the subcommittees, and made part of this report.

The assignment to this committee to study the materials and chemicals requirements excluded steel, inasmuch as another committee of the Council is covering the petroleum industry steel requirements.

In view of the studies contemplated by the Petroleum Administration for Defense, the present study of materials and chemicals requirements of the oil and gas industries was limited to a determination of items in short supply and in prospective short supply.

The lists as compiled are as follows:

Section I - List of Critical Materials in Short Supply.

mlk

Section II - List of Critical Materials in Prospective Short Supply.

Subsection I - List of Critical Materials in Short Supply by Divisions of the Oil and Gas Industries.

Subsection II - List of Critical Materials in Prospective Short Supply by Divisions of the Oil and Gas Industries.

CHAIRMAN HALLANAN: Gentlemen, this report has been in your hands for some weeks. It was not released for publication and it is before the committee for its approval.

Mr. Taylor, you move the adoption of the report?

MR. TAYLOR: I so move.

CHAIRMAN HALLANAN: All in favor indicate by saying "Aye." Opposed, "No."

The report is adopted.

The Committee on Synthetic Liquid Fuels Production Costs.

REPORT OF COMMITTEE ON SYNTHETIC LIQUID FUELS

PRODUCTION COSTS

Mr. RODGERS: There has been no meeting of the committee on Synthetic Fuels since the last interim report submitted December 5, 1950. The subcommittee on synthetic fuels has continued to hold meetings, and I am pleased to report that considerable progress has been attained in the interim, despite the magnitude of the task. Our group has included working subcommittees comprised of 42 members,

representing some nineteen companies. In addition, approximately 85 engineers and skilled technical personnel have devoted considerable time and effort to the subcommittee's activities.

In our previous report to this committee, we advised you that we would endeavor to establish the cost of synthetic fuels as produced by three processes - coal hydrogenation, coal gasification and fuel synthesis, and shale oil refining. In addition, for each of these basic processes, we would establish the so-called first plant cost and the industry-wide plant cost, that is, the average cost for the necessary plants to provide 250,000 barrels per day production. And further, that we would work up a present day or established cost, that is, one based on presently developed processes, and secondly, a future or optimistic cost which would allow for possible technological research improvements which might be forthcoming in the next five to ten years.

It became evident, after several months of activity, that the time and work involved in preparing each separate case, obtaining the necessary data from the Bureau of Mines and reviewing our results with the Bureau of Mines to clear up any major differences, necessitated reducing the number of cases to expedite the work. The cases selected for presentation in the initial report, which we hope will be available to the National Petroleum Council in September, include only the

first plant and industry-wide cases for the present day or established coal hydrogenation and shale oil processes. The future or optimistic cases for these processes and all of the cases for the coal gasification and fuel synthesis process are presently deferred, but will be included in a second report.

The subcommittee work has been divided among four working committees -- Raw Materials, Process, Engineering, and Economics. The status of each committee's work is briefly as follows:

The Raw Materials group has essentially completed its assignment of establishing the availability of shale and coal for specific plant sites, and the cost and quality of these raw materials. Bureau of Mines and NPA personnel are essentially in agreement on availability, cost and quality of oil shale and western coals, but the cost and quality of eastern coals remains an area of disagreement. Every effort is being made to reconcile this difference, but it is presently questionable whether this will be accomplished.

The Process Committee has critically reviewed the Bureau of Mines processes and industry processes made available to the Bureau of Mines for coal hydrogenation and oil shale operations, and has now completed its assignment of calculating raw material requirements, equipment sizes, and so forth.

The Engineering Committee, whose function it is to

ml7

develop investment costs for plants and all off-site facilities, has its assignment approximately fifty per cent complete on the initial projects. It is presently indicated that this phase of the work will be completed by July 15.

A newly formed Economics Committee was set up during the past month. Its function is to assemble and integrate the data from the Raw Materials, Process and Engineering groups to develop the final operating and investment costs for synthetic fuel plants. This group is currently making a test or "dry run" on the most nearly completed case, that is the Rock Springs Coal hydrogenation case. It is hoped that this group will finish its work by August 15.

The subcommittee believes that the time, manpower, and energy being devoted to this entire assignment will provide both industry and government with an authoritative evaluation of the cost of producing synthetic liquid fuels from coal and shale.

I might say that according to schedule, it is going to be about September 15th before we get in all the data. I will then expect to have a meeting of the main committee and I doubt if we can get the report to you before October first. It may be a little later. I think there is a meeting in October, is there not?

CHAIRMAN HALLANAN: Well, we are trying to maintain a sort of a flexible schedule this year, Mr. Rodgers.

ml8

MR. RODGERS: I will try to get it ready for the October meeting.

CHAIRMAN HALLANAN: Are there any questions, gentlemen, in connection with Mr. Rodgers' report?

Do you move the adoption of the report?

MR. RODGERS: I so move.

(Motion seconded.)

CHAIRMAN HALLANAN: All in favor indicate by saying "Aye." Opposed, "No."

It is so ordered.

Admiral Biggs, this committee is always interested in hearing from you with respect to the situation regarding the military.

MILITARY REQUIREMENTS

ADMIRAL BIGGS: As I told you last time, you are gluttons for punishment and you have certainly proven it this afternoon.

I would like to mention a couple of things which have been taken up here.

The question of manpower, we have beaten it to death for the past year. Some of us have talked to the powers that be as much like a Dutch Uncle as we could on the subject and we think we are making progress.

You will notice in the newspapers that there is such a thing as a rotation policy. It is beginning, we hope, to

m19

operate, very soon, and we will rotate the reserve officers. I know that the Navy is releasing some.

I agree with your need for some manpower outfit in PAD. I also agree with PAD that they are in no position to establish it.

Incidentally, I hope you will note that I have a new title. I am now Chief of the Office of Petroleum Programs of the Munitions Board, among other things. It doesn't mean anything.

Now, the facilities security business, we are very much interested in and some of us have been doing several outside loops on that one. We have been working with the API committee, among other people, and through various pieces of sculduggery and other maneuvers and taking advantage of one with Alton Jones' good nature, we have a gentleman tagged who is going to be our number one whipping boy in between my shop, the Industrial Security Division of the Munitions Board, and the Air Force. Incidentally, the Air Force had been tagged with the refinery job. There is nobody else in the act as of this morning.

This is under William Arboyd III. He is to be taken in as soon as we get his fingerprints, his past history and his possible subversive attitude.

There is one other little business. My telephone has not yet burned out by two transformers, but if any of you

m20

gentlemen want my assistance on this personnel business, I am still working at the same old stand. I have Army and Air Force boys there to assist me and we might know the right people. We have been accused lately of knowing the wrong ones.

I hope to go ahead with something we have been trying to do for a long time and that is trying to get a transportation appreciation of this picture. I know Mr. Spencer has been hogtied pretty much. He has explained it to me in detail, that all the things you might do on a transportation deal hinges around the fact that you suddenly take that transportation system, turn it completely around 180 degrees and expect it to work overnight. It won't do it, unless you know ahead of time what kind of a gyro you are going to set and that gyro is set by the military requirements.

I have in my shop at the present moment -- and I hope no one has lost it -- the requirements of the military departments on a certain thing, by areas, by districts, and if we can put them together and get at least a morganatic marriage we will be able to furnish Mr. Burrill and Dene Hodges' units information that heretofore they have been unable to extract from me. Don't think they haven't tried.

Now, we get down to a little family affair. Gentlemen, I need 520,000 barrels of gasoline, motor gas, 80 octane, combat gasoline, on the west coast to be shipped prior

m21

to the 30th of June and I would like a contract by ten o'clock in the morning with no conditional clause at the bottom.

Thank you very much.

(Applause)

That was rather cryptic and so intended, but the point of the matter is, gentlemen, that all of our contracts were used up on the first of May for motor gasoline.

We have no objection to the proposition that you put the bite on PAD for tetraethyl lead, but, as I told you previously in 1946, I think it was, as I remember it, we were having a little trouble with OPA at that time and I informed the boys up in the API, "Gentlemen, I have called the department two or three times and so far nothing has happened. Now, I don't mind your using me as a perfectly beautiful instrument -- we couldn't get Navy special fuel at that point -- but let's get down to brass tacks. I know it and you know it. Let's admit it and behave ourselves. The only thing I want is Navy special fuel oil."

Now, at this particular moment, all I am interested in is getting four cargoes of motor gasoline, motor gasoline, 80 octane, before the 30th of June.

Now, our storage in a rather critical area is only slightly in excess of thirty days supply and in that particular outfit, the supply at the present time, the storage,

m22

is not full. It is therefore vital that we get that particular item right away.

Now, for our next six months, we have some requirements which Captain Tripi will go over in the next few minutes, of how much we want in the next six months, and remember, gentlemen, we can't sign a conditional contract.

MR. BRUCE BROWN: You object to being used as a club to whip PAD?

ADMIRAL BIGGS: I reserve the right to work over Mr. Brown and PAD "on me own terms."

I don't say you are using me directly that way, but the fact remains that I might -- and don't anybody get insulted about this -- I don't mind having a fast one pulled past my nose. I more or less admire the guy who can do it, but I certainly hate to have my intelligence insulted.

CHAIRMAN HALLANAN: Is Captain Tripi here?

Gentlemen, I desire to present Captain Tripi, Executive Officer of the Armed Forces Petroleum Purchasing Agency.

(Applause.)

CAPTAIN TRIPI: Unwittingly, gentlemen, I am the curtain-ringer. I am sure that was quite accidental.

The other day my administrative officer came in to see me and he quite proudly announced that for the quarter January through March 31st, our machine shop had put out 1,340 pieces of paper. Well, I am going back to show him

m23

he is a piker.

Gentlemen, I don't have too much to say. Admiral Biggs didn't tell you that I didn't know I was going to talk, but, of course, he has great faith in me and assumes I have some facts at my fingertips. I still don't know what I am going to talk about.

When Mr. Brazell talked I had a question ready, but Admiral Biggs covered that.

As Executive Officer of the agency, I feel that because of your wonderful efforts and the industry's efforts, and PAD's efforts, that I owe you a short account of our stewardship and what we had done with the help you have given us.

You will recall last fall when Admiral Biggs made an impassionate plea to you -- I think his exact words on the 100-130 situation were, "All terminals depleted; all drums decanted."

Well, the picture is quite different now. We are in pretty good shape. Our aviation gas, we have about ninety days' supply. I won't state it exactly ninety days; maybe it is more or less, it all depends on what goes on over there, what the operations are.

Jet gas, we have about a ninety day supply. Navy special, by the end of this month we hope to have our terminals full. On diesel we are in fine shape.

I now come to combat gasoline. We are in rotten shape

m24

on that, gentlemen, and we need help and we need help right away.

We have a lifting scheduled from the west coast on May 20th. We expected to make that from a commitment with one of the companies on the west coast. Unfortunately, that ship is not going to sail on time. It has already slipped and we can't afford to let it slip much more.

We had another lifting schedule for May 30, as well as for June 18 and June 25. Those vessels must be met with produce. There is no yes or no or maybe about it. We have to have that produce because, as Admiral Biggs said, there is just a little more than a thirty day supply out there and I am sure that you don't want us or General Ridgeway or anybody else to ask thirty or thirty-five days from now why they didn't pursue the Reds further north or why they couldn't retreat fast enough. I don't know what they are going to do.

In my talks with the representatives of the companies, I have been very dissatisfied because we have been given nothing concrete. Yes, you can have the motor gasoline, the combat gasoline, "if" we get the lead from PAD.

Now, the industry and PAD is evidently having a family feud, or we are trying to be used as a lever, I don't know what. It doesn't matter. We are not interested in that. All we are interested in is that gasoline and we have got to

m25

have it.

That is all, gentlemen. Thank you.

(Applause.)

CHAIRMAN HALLANAN: Gentlemen, I would like to request the chairman of the Agenda Committee, Mr. Jacobsen, and the chairmen of these special committees who have reported this afternoon, to remain with me here a few minutes after the adjournment of the Council in order that we may meet the representatives of the press for a very brief session.

Mr. Stewart, you have received here this afternoon a number of committee reports dealing with the range of subjects which was requested by you as Director of the Oil and Gas Division. Would you care to comment at this time as to the reports and the adequacy of them or whether or not they fill the desires?

MR. STEWART: Gentlemen, I don't think I am in a position to comment yet on the sufficiency or adequacy of the reports as presently submitted.

I want to make this comment, though, that you and your committee fully deserve the utmost expression of our appreciation for the immense amount of work that you have already put out on a number of these questions which are broad and require a tremendous amount of work.

I am very much impressed with the interim report by Mr. Rodgers on the synthetic fuel study. I have been trying to

m26

follow that from time to time. It has proven to be a tremendous job. Some of these other committees did a tremendous amount of work.

As we get a chance to study these interim reports as submitted, we may have additional questions or information that we may want to get, but as of now and with the hour as late as it is, I simply want to express my own appreciation and the appreciation of our entire group for the tremendous amount of work you fellows have done and the speed with which you have tied into the job.

Thank you.

(Applause.)

CHAIRMAN HALLANAN: Mr. Russel Brown, do you have anything to submit?

MR. RUSSEL BROWN: There has been no supplemental work.

CHAIRMAN HALLANAN: Is there any informal report to make?

MR. RUSSEL BROWN: There is one or two things that might be helped if we could get an idea of how you are treating something. You have given us recommendations on oil country goods. There is a lot of disturbance about other supplies and what your position is on that as a claiming agent. For instance, a lot of folks say, "There is no use in our drilling wells if we can't move the oil." Some of them are getting tied up pretty badly, I think, because of the transportation.

I wondered if you could make any statement as to your claiming position as to the other steel. I get a lot of questions about that.

MR. BRUCE BROWN: Our claiming position is good. However, it has been indicated that no decisions have been made.

What we are going to have to do, I think, is, in addition to issuing the order, we will have to start to issue priority papers sometime. We are going to have to issue priority paper to get some transportation projects done. There is no sense having them all laying around half finished. We will have to work out some mechanisms through which a man who has drilled an oil well or a gas well can connect to some transmission system or existing gathering line.

It is just on the list of things that haven't been accomplished yet. We can't do too much about it until we know what the kitty is.

We have been promised knowledge of what the fourth quarter allotment requirements will be. Some day they are surely going to come through with it. Frank thought it might be this afternoon or tomorrow. We thought that last week.

I said, "For Heaven's sake, tell us today so we can tell the Council," but we don't know yet. It is just a terrific problem. However, we fully recognize, all of us in all branches of PAD, that we have to get the small

m28

diameter line pipe to the people who need it to connect the wells that they have produced, with some method of getting away the product.

Our first problem, as far as line pipe is concerned, is to go to be connected up with existing transportation facilities rather than build new transportation facilities.

CHAIRMAN HALLANAN: There are a number of other questions, but they are not as serious.

Gentlemen, since the first of January, I think we are all conscious of the fact that we have, as a Council, been traveling through unchartered seas. We have been continuing as a Council at the request of the appointed power, the Secretary of the Interior, and in traveling through this area of the twilight zone, I want to take this opportunity to express my appreciation and gratitude to the cooperative efforts of two members of this Council who have also served as consultants in the organization of the Petroleum Defense Council. Those two members are Major J. R. Parten and Howard Marshall.

(Applause.)

CHAIRMAN HALLANAN: While we have been going through this area, it has been my privilege to talk over various matters in relation to the continuance of this Council with them. They have been here with a great determination to see that this Council continued on the same basis that it has

m29

worked on since it was organized back in 1946 and they have been effective spokesmen in what I believe is an important situation for the whole petroleum industry.

I would like for us to take just a moment or two -- I want to call on Major Parten and then Mr. Marshall.

Major Parten.

MAJOR PARTEN: Thank you very much. I feel that I have done very little around here to help Bruce and Justin and Secretary Chapman in this situation with Justice which has caused a great deal of confusion.

I will say this to you, that as Bruce and Justin have already said, when Howard and I get through with this one, we can go home. We are looking forward to that with a great deal of pleasure.

CHAIRMAN HALLANAN: Howard, may we call on you?

MR. MARSHALL: All I would want to do would be punctuate and emphasize what J. R. has already said.

CHAIRMAN HALLANAN: Gentlemen, I desire to present at this time Mr. Justin Wolf, who is General Counsel of the Petroleum Administration for Defense, and who has been very much concerned about the same problem.

Mr. Wolf.

(Applause.)

MR. WOLF: After listening to Mr. Parten and Mr. Marshall there is very little I can add except one statement and one

m30

only and I will make it just as brief as I possibly can.

There won't be any relaxing on this problem.

(Applause.)

CHAIRMAN HALLANAN: Gentlemen, that concludes our agenda, unless under the head of new business any member of the Council desires to bring some further subject to our attention.

(Move for adjournment was made.)

CHAIRMAN HALLANAN: All in favor signify by saying "Aye." Opposed, "No."

The Council stands adjourned.

(Thereupon, at 5:30 p.m., the meeting adjourned.)

- - -