TRANSCRIPT OF PROCEEDINGS

In the Matter of:

Date:

ALDERSON REPORTING COMPANY
OFFICIAL REPORTERS
306 NINTH ST., N. W.   WASHINGTON, D. C.
NA - 1120 - 1121

Reviewer Coffren

Date 8/26/52

From the Files of the

National Petroleum Council

Record: Council Meeting (Transcript)

Date of Record: July 29, 1952

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."

	Exploration	Production	Refining	Trans.	Marketing	Pricing
Pages						
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Other

Pages 70-78 (Address of J. Ed Brantly-discussion of the

" "Voluntary Agreement Relating to the Supply of Petroleum

" to Friendly Foreign Nations."

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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.

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MORNING SESSION

CHAIRMAN HALLANAN: The Council will please come to order.

(Applause.)

CHAIRMAN HALLANAN: The Secretary will please call the roll.

SECRETARY BROWN: Gentlemen, as I call the name of a member, and if he is not present but represented by someone who is present, will that individual kindly rise and give his name so that we may have it for the record?

(Roll call.)

CHAIRMAN HALLANAN: Gentlemen, I have the pleasure of introducing a new member of the Council who has had a leave of absence and enforced taking away, Bruce Brown.

(Applause.)

CHAIRMAN HALLANAN: Gentlemen, I desire to present another new member of the Council, Mason B. Jones of Toledo, Ohio, newly-elected President of the Equipment Suppliers Association. Will you please rise, Mr. Jones?

(Applause.)

MR. MAJEWSKI: Mr. Chairman, I rise not to make a parliamentary inquiry nor to interpose an interrogatory.

CHAIRMAN HALLANAN: For what purpose does the member rise?

MR. MAJEWSKI: Today, as on several occasions in the past, it is my cherished and personal privilege to salute and hail the man Hallanan. You didn't get your feather, but you converted Mary Majewski's oldest boy to the flag of Eisenhower, not with one vote at the convention, but I am here to say that I think the fellow will ~~be~~ beat Mr. Stevenson in my State. I am so certain of it that I will take a small bet on that with these confident people.

I know something about the Democrats in the State of Illinois, they no longer have their votes weighed, they have them counted and I think they will have them counted for a great Republican named Eisenhower.

Anyhow, I am not here to talk about Ike, I am here to talk about the man Hallanan. Incidentally, I want to tell you that that television is a great thing. I notice that they are getting smart in that they take out all the hoodlums in the convention who were delegates.

As an alternate I had a half vote, and I didn't go to any session after Sunday. The first day we had a caucus in the Illinois delegation, and I heard the fellow that is the nominee of the Democratic Party say that he was not fitted to be President either mentally, physically, or temperamentally, so what the hell did I have to do there?

(Laughter.)

MR. MAJEWSKI: I live only 12 miles from the insane institution at Elgin, Illinois. So if that is what I had to go to a caucus for, I can go pick Napoleon from about 11,000 people. You know, everybody that is in our nuthouse is Napoleon, they don't have any lesser personage, not since Franklin died.

I am here, Walter, to acknowledge another masterful job that you did for the oil industry. You know the people that vote are not the people that are on this Council. You folks don't get up early enough to do it, or else you are out of town on your business, but it's these bartenders, truck drivers, those fellows that can afford to look at a video while they are taking Miller High Life or some other brew, and when they see a fellow up there who sits with dignity and honor, they ask, "Who's that fellow Hellanan?" han

I didn't change it, who am I to argue with people that don't know how to spell, and besides they made up their own mind about this fellow Hallanan, and they said, "What a guy. If we could only get him into our organization as the State Chairman instead of that little West Virginia," and some of them got out a map to find out where it was, and by God, they haven't been able to find it yet on one of those Esso maps. That is a sectional map I guess because they left West Virginia out.

(Laughter.)

MR. MAJEWSKI: But, Walter, your performance reflected a great credit -- I don't have a damned thing written here because I am going to say this to Oscar Chapman when he gets here. Your performance reflected great credit not only on the nation to which you have dedicated great service in the interest of all the people, but on this great industry, and all I want to say now is that in hailing the man Hallanan I hope that the Lord preserves you with many, many more years of life in health, in vigor, to conduct and comport yourself like you did on that historic occasion in Chicago, and in doing so you helped little guys like me in the oil business and big guys like the full vote for Eisenhower that was recorded a little while ago.

I thank you, Walter.

(Applause.)

CHAIRMAN HALLANAN: Barney, I know that what you have said comes from the bottom of your heart, and I want to tell you how grateful I am. If I did anything in connection with the job I was called upon to perform in Chicago that reflected credit upon myself, upon my party, upon my associates, I feel amply rewarded.

There is one thing, though, that occurred to me during the time of the convention that I recall on one occasion the Secretary of the Interior when addressing the Council said that he didn't know I was a Republican. I wanted him to get that corrected in his mind at least from now on. It's a great pleasure to have served, it's a great pleasure to have had an opportunity over a history-making convention, but nothing exceeds the pleasure that I have had in presiding over this group of the National Petroleum Council. Thank you.

(Applause.)

CHAIRMAN HALLANAN: Gentlemen, you have received the minutes of the last meeting of April 29. What is your pleasure?

(There was a motion from the floor for approval.)

CHAIRMAN HALLANAN: Is there a second to that motion?

(The motion was seconded.)

CHAIRMAN HALLANAN: All in favor will please indicate by saying aye? Contrary, no? So ordered.

We will now have the report of the Secretary-Treasurer.

SECRETARY BROWN: The report covers the period ending
2 today, a seven-month period for the year so far. The contributions have totaled $106,575. Other receipts from publications and so forth, $3,400, or a total of $110,011. The total disbursements are $67,849. We began the year with $7,280.

Therefore, there is a balance at the present time of $49,442. The reserve fund remains unchanged at $65,000.

CHAIRMAN HALLANAN: Are there any remarks or any questions? If not, the report of the Treasurer will be filed.

The Chair now recognizes Mr. Jacobsen to present the report of the Agenda Committee. Mr. Jacobsen?

MR. JACOBSEN: Under date of July 16, 1952, 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 a committee be appointed to make a study on the use of radio and radar in the oil and gas industry.

The letter reads as follows:

"Dear Mr. Hallanan:

"The use of radio and radar in the oil and gas industries has greatly increased during the past few years and the industries are becoming increasingly dependent on these for dependable day-to-day operation. This is especially true in oil and gas pipe line operation.

"Many of the channels allocated for the use of the oil and gas industries are basically reserved to the military and are licensed under such reservation. It, therefore, would be desirable to have a study made of the present extent of the use of radio and radar in the oil and gas industries, the possibility of use of alternates in extreme emergencies and the degree to which the national security and defense might be affected if the radio channels were taken over by the military.

"The oil and gas industries have already studied some phases of the problems but an authoritative, comprehensive and up-to-date study and report by the National

Petroleum Council would be particularly valuable to the Petroleum Administration for Defense and the Federal Communications Commission in connection with defense planning.

"It is, therefore, requested that the National Petroleum Council appoint a committee to make the study with such report, comments and recommendations as the Council considers appropriate.

"Very truly yours,"

As provided in the Articles of Organization of the Council this letter was considered at a meeting of the Agenda Committee on July 28, 1952 in Washington, D. C., at which meeting it was unanimously agreed to recommend to the Council the appointment of a committee to make a study as requested by Mr. Stewart and to report to the Council.

Also under date of July 16, 1952 Mr. Stewart addressed a letter to Mr. Hallanan. Chairman of the Council, requesting that the Council make a study of the oil and gas prospects of offshore submerged lands on the basis of technological aspects only without regard to ownership or title.

The letter referred to is as follows:

"Dear Mr. Hallanan:

"The National Petroleum Council's report of January 29, 1952, on 'Petroleum Productive Capacity' is one of the most thorough-going and important reports the

Council has submitted to the Department of the Interior. This report stresses the importance of oil and gas prospects of offshore submerged lands. The President's Material Resources Commission (Paley Commission) report, June 1952, likewise emphasizes the importance of these potential reserves. Both reports indicate that such resources of oil and gas could be critically important to national security and defense.

"While both reports point out the potential importance of the oil and gas prospects of offshore submerged lands, it is also important that an authoritative study be made of the availability of these potential reserves in terms of technological aspects. The problems incident to the discovery, development and production of offshore petroleum deposits are different both in magnitude and in character when compared to operations in adjacent onshore areas. It is essential, therefore, that the impact of these new and different problems be studied and their effect estimated with reference to the availability of production from submerged lands.

"It is, therefore, requested that the National Petroleum Council appoint a committee to proceed with this study upon the assumption that conditions comparable to those upon which the National Petroleum Council report on productive capacity was based will exist and to evaluate the technological aspects of exploration, development and production with respect to the availability of production from submerged lands:

"1. If a critical and immediate need develops for national security reasons.

"2. If no such needs arise but if exploration and development were to be freely conducted over a 5-year period.

"It is requested that this study be made on the basis of technological aspects only without regard to ownership or title.

"Very truly yours,"

As provided in the Articles of Organization of the Council this letter was also considered at the meeting of the Agenda Committee held on July 28, in Washington, D. C. at which meeting 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.

On July 17, 1952 the Secretary of the Interior informed the National Petroleum Council that he had invited Secretary Snyder of the Treasury Department to attend the meeting of the National Petroleum Council on July 29 to present a request in person in connection with the proposed extension of the Payroll Savings Plan throughout the petroleum industry.

The letter is as follows:

"Dear Walter:

"The Treasury Department is desirous of enlisting the support and assistance of the National Petroleum Council in encouraging the petroleum industry to again support the Payroll Savings Plan. For your information I am enclosing an exchange of correspondence between Secretary Snyder and myself.

"You will recall that a similar request was made on January 7, 1949. The response from the petroleum industry was so effective that on April 26, 1950, Secretary of the Treasury Snyder presented to the National Petroleum Council the Treasury's Distinguished Service Award and citation 'for leadership in building security for the people and the Nation through United States Savings Bonds.'

"Because of the fine record made by the petroleum industry in the previous campaign, I have taken the liberty to invite Secretary Snyder to attend the next meeting of the National Petroleum Council on July 29th to present his request in person.

"Sincerely,"

Secretary Chapman transmitted a copy of a communication, which he received from Secretary Snyder dated July 1, and his response dated July 11. The substance of Secretary Snyder's communication was to invite the attention of the Council members to the importance of their support to the Payroll

Savings Plan and urging their assistance in encouraging employee participation throughout the industry.

"Dear Oscar:

"An outstanding contribution in the national interest was made in 1949 by the National Petroleum Council in its effective support of the Payroll Savings Plan for United States Savings Bonds.

"The Council, by resolution unanimously adopted at its January 13, 1949 meeting, expressed its appreciation of the importance of the prOper management of the public debt to the future of American industry and our free enterprise system. It authorized its chairman to invite the voluntary support of the Petroleum Industry in making Payroll Savings Plan available to company employees and encouraging their interest in acquiring United States Savings Bonds.

"The endorsement of the Council, the work of its chairman and secretary-treasurer, and the response by the individual companies and associations resulted in the Payroll Savings Plan being made available throughout the industry. Very few petroleum companies now fail to operate this plan.

"Today, with our increased defense and security program following the communist aggression in Korea, it is even more important to obtain the widespread distribution of the holding of the debt. The Payroll S avings Plan continues to be one of the most effective methods for accomplishing this and for encouraging the systematic practice of thrift, and, as you know, the terms of the Series E Bond have recently been improved. The leadership of the Petroleum Industry is again very much needed to set an example for the nation in the work of encouraging employees to save in United States Defense Bonds.

"In view of the relationship between your department and the National Petroleum Council, as in 1949, I should appreciate your inviting the attention of the Council members to the importance of their support of the Payroll Savings Plan and urging their assistance in encouraging increased employee participation throughout the industry. The United States Savings Bonds Division is again prepared to aid in this undertaking.

"Thank you very much for your helpfulness.

"Sincerely,

"John W. Snyder."

The letter dated July 11 is as follows:

"Dear John:

"In your letter of July 1 you commented on the effective work which the Petroleum Industry had carried on under the Payroll Savings Plan for purchase of United States Savings Bonds, and the effective support which the National Petroleum Council had given the program.

"I note that you would again like to invite attention of the Council members to the importance of the Payroll Savings Plan and urge renewed interest in the plan. This is entirely agreeable to me.

"Thinking that it would be much more effective for you to make an appearance before the next meeting of the National Petroleum Council, I raised the question with Mr. J. Ed Warren, Deputy Administrator of the Petroleum Administration for Defense. He discussed the matter with Mr. Martin H. Miller, Assistant Director, Payroll Savings of your Department, who advised that you could address the Council at its meeting on July 29, at 11:30 a.m. Should circumstances develop which might necessitate a change in the time of your appearance before the National Petroleum Council on July 29, the agenda may be changed to suit your schedule.

"Your personal appearance should stimulate interest in the Payroll Savings Plan, and I feel confident that you can again expect excellent results from the Petroleum Industry.

"Sincerely yours,

"Oscar, Secretary of the Interior."

On July 21 Chairman Hallanan transmitted copies of this correspondence to the Agenda Committee and requested its views. The Agenda Committee recommends that the National Petroleum Council authorize the Chairman of the Council to continue to take such steps as he may deem appropriate to bring to the attention of the members of this Council and the petroleum industry the efforts of the Treasury Department to promote and extend the Payroll Savings Plan and to invite the voluntary support of the entire industry.

I move the approval of this report.

(The motion was seconded from the floor)

CHAIRMAN HALLANAN: Gentlemen of the Council, you have heard the report of the Agenda Committee as submitted by the Chairman, Mr. Jacobsen. It has been moved and seconded that the report be adopted.

All in favor, please say aye.

Contrary, no.

The report is adopted.

Thank you, Mr. Jacobsen.

Gentlemen of the Council, we are honored here this morning by the presence of a distinguished representative of the government, an eminent lawyer who has responded to the call of his government at various times of national emergency, and who today is the Chairman of the Defense Production Administration and Administrator of the National Production Authority.

We are delighted to have Mr. Henry H. Fowler here this morning to speak to the Council. He comes at a time when this industry is facing a critical situation with respect to shortages of supplies and material. I know that Mr. Fowler will have a message of interest to bring to the Council and he has indicated to me that at the conclusion of his remarks he shall be very glad to answer or attempt to answer any questions which the members may desire to propound to him.

I take pleasure at this time in presenting to you Mr. Henry H. Fowler, Administrator of the National Production Authority.

(Applause)

REMARKS OF THE HONORABLE HENRY H. FOWLER, ADMINISTRATOR, NATIONAL PRODUCTION AUTHORITY.

MR. FOWLER: If you gentlemen will forgive me, I will stand here where I can see you all better.

This is my first meeting with the Council and although I was well directed to the room and crept in the door, being a few minutes late, and made my way to the front before looking up, when I looked up the first figure I saw was a familiar face I had witnessed in the late evenings several weeks ago on television. It was quite a shock because I was not familiar with the officialdom of the Council, and the only thing that came to my mind was, "My God, they have taken over already!"

(Laughter)

MR. FOWLER: Quick second thought came to my mind, however, due to the fact that those of us who worked through the days of World War II, and those of us who are working today in the present defense production program, are used to the fact that the national defense, and, particularly, the function of production and supply of what the nation needs in time when its security is threatened, is the province of men of both parties at all times, regardless of the tinge of a particular administration.

We in NPA like you who have some familiarity with PAD, are extremely fortunate and owe a great debt to the modern version of a dollar-a-year man of World War I and World War II, who is known as the "without compensation". We have over three hundred serving in the production authority in charge of most of the industry division. They serve on a six-month rotation basis, sometimes staying longer, depending upon the particular arrangement that can be made with the company.

It would be remiss for me to appear before you and not say at the very outset that this practice which has almost become a tradition and I hope will become a tradition of combining in government for the job of production and supply the abilities and brains and experience from private industry, that practice, that tradition, and that willingness on the part of both government and industry to lend themselves to that activity which has become a subject of a provision as you all know of the Defense Production Act, is one of our very real national assets.

While it is not incumbent upon me to say here to this group, I do say it frequently to other groups of industry which we in DPA and NPA have close contact with, whatever you do, don't let us down in keeping these emergency production and supply agencies adequately equipped with the ability, brains, and experience that only industry can supply to this effort.

Now, seeing Mr. Hellman and thinking of the future reminds me of a story that most of you have heard. It is perhaps a little appropriate today as we face into the next few years, and that is of the familiar Washington visitor who is riding with the taxicab driver and he passes the Archives Building. The visitor looks up and sees above the pediment "The Past is Prologue". He taps the driver on the shoulder and says, "What does that mean?", and the driver looked up and it was the first time he had ever seen it and was a little bit taken aback, but you know Washington taxi drivers, they don't stay taken aback long.

"Well, that means you ain't seen nothing yet."

(Laughter)

MR. FOWLER: I think sometimes that that is the only expression that can be applied to the future.

Being here this morning in the face of the very pleasant national fact that steel production is completely on the way to resumption, leads me to remark that I didn't view this resumption of steel production with a completely unmixed happiness that I am sure most of the rest of the one hundred fifty million of the people of the country did.

While the strike was going on everybody could blame Phil Murray and the Big Six. Now the first day that steel production is resumed, I am going to get all the blame if anybody doesn't get that last ton of steel.

Let me say before passing on to the principal message I want to give you, that CMP, the Control Materials Plan, which is our instrument for dealing with the distribution of materials -- steel, copper, and aluminum -- CMP cannot produce a single ton of steel; that the loss of production of nearly twenty millions of tons of steel cannot be made up and that little recognized factor of lead time, time to get the mills going, time to effect the necessary repairs, time to deal with the breakdowns that are likely to occur, time to make up the production schedule, study the order boards, and figure what has to come first, time to do the various steps in the processing, make the deliveries, during that period of the next few weeks we may extend up to two months, the interruption of supply, the break in pipeline that must be repaired, the flow that must come through, is bound to cause considerable more trouble before we will have in this country the flow of steel material that we had on June 7. Just how long this period will be and what will be the pace and extent of the impact is relatively unpredictable. It depends on inventory situations that no one nowhere in this country is familiar with in any detail.

We are all going to have to be patient and remember that after the kind of thing we have been through thereis bound to be something in the order of a national hangover and we will go through that national hangover in the next six weeks to two months, despite the fact that steel production is fully resumed.

Now, I wanted to talk to you this morning just for a few minutes about the overall defense production program. I want to remind you of the obvious that our security is menaced today just as it was two years ago when we realized that there was a hostile power in the world not only bent upon our destruction and the destruction of our way of life through subversion and infiltration, but willing to use naked aggression, should that be the necessary means.

Nothing has changed since 1950 to color that situation in any different light than it was in late June.

Two years ago we inaugurated the defense production program to develop and maintain the necessary military and economic strength necessary to preserve peace, or, in event of war, to defend our national security. Now this day-to-day that you are meeting here seems to me to be a fitting time to evaluate whther we are getting strong enough fast enough to preserve that security.

Under the Defense Production Act machinery with which you are all familiar was set up to aid in the development of mobilized readiness and, at the same time, maintain civilian economy in a reasonably effective and prosperous state. This machinery by and large has been working reasonably well and the country is on the way, and I emphasize only "on the way", to reaching the national security goals that were earlier fixed.

But the toughest part of the climb is still ahead. The higher we move up the production curve, the more difficult it is to expand the levels, particularly of some of the hard to get military items, the newer types of planes and tanks and weapons that involve and encompass some of the most revolutionary technological changes in warfare that the world has ever seen.

Most of us don't realize that the end of World War II saw the contending forces just beginning to recognize that they were in the throes of technological changes that would reshape the whole pattern of warfare, atomic energy, jet propulsion, electronics, petro chemicals.

Those four are the principal examples of the kind of change technologically that we have to adapt our pattern of defense to in this generation.

The further we move up the curve of expanding facilities, industrial facilities that are necessary to our defense, the more important it becomes that we close all the gaps and achieve the goals before we fall. The progress we make toward securing adequate supplies of strategic and critical material in stockpile, materials that we are dependent upon in large measure on overseas supply, or supplies outside the United States, the more important it becomes to close those gaps in the quickest possible time in order to be ready to fight if total war should become necessary.

The defense production effort to achieve the adequate state of mobilization readiness involves a very complex system of cooperation between government, industry, and labor for the increased production and channeling of scarce materials and equipment. It is bringing coals to NewCastle for me to say to those of you familiar with petroleum and related industries, that that cooperation, that spirit of sitting down at the table and working, is a responsibility between government, industry, and labor, which is indispensable to the continuance of the kind of an effort we have underway.

If I may venture to remark, anything of a major nature that tends to cut across and destroy that spirit of cooperation between government and industry in the pursuit of the common goals of national security at this time is not in the national interest. We can take comfort in one fact today, and that is regardless of our differences, and I know there are many throughout the country on certain aspects of the Defense Production Act regarding prices and wages, there was a general unanimity in the Congress that Titles I, 2, and 3, having to do with priorities and allocations and expansion of supply were renewed for a full year without any appreciable dissent.

So that the charter of legislative authority we have to work under for the continuance of that effort may proceed on an uninterrupted basis and that means that we shall be able to maintain the system of valves or channels as it were, whereby the materials can be placed at the point where they are most needed at the right time and whereby, if you will, as short materials come into plentiful supply, we can return them to the market.

Should there be, however, a sudden intensification of the international crisis, or a situation that required more for defense, that machinery is there to see that material facilities and resources are channeled in such manner as to accelerate the program.

Of course, this system that we have and no other system can work when we do not produce, we cannot insulate the defense program from nationwide work stoppages in the production of critical material such as steel or end products such as aircraft in the general state of the law as it exists today.

Now where exactly do we stand in this program? People who have appropriated through their representatives over one hundred thirty billion dollars are certainly entitled to know. As I indicated, we are on our way up the incline, but we are far from having completed it. The impression that you get from the newspapers that the mobilization program is largely behind us, it is just a matter of cleaning up the details here and there, is a most mistaken bit of wishful thinking that could be indulged in at this time.

We are only half way through this first initial three-year program in terms of time and in terms of achievement. Of the roughly one hundred thirty-two billion dollars which has been appropriated for military procurement and construction, only approximately thirty-four billion dollars of goods and facilities has been delivered, is in hand. Contracts have been let for slightly over eighty-four billion dollars, but the products representing a substantial part of that, the difference between eighty-four and thirty-four are in varying stages undelivered in the pipelines of production.

An additional forty-eight billion dollars of funds remains to be appropriated and to it must be added the problem of additional contracts.

So you can see by that simple arithmetic that in so far as military products are concerned, we have a year to go. If there were deliveries on outstanding orders plus the unplaced orders at the current rates of delivery, we should still be forty months away from the completion of this program.

Now in the months ahead, or in the year ahead, we have to continue to climb that incline in terms of the rate of delivery so that we won't be forty months in completing this program and we hope to climb an increased rate of about eight billion dollars a quarter, which was the last quarter delivery, to the rate of $10.5 billiona quarter by the spring of 1953, and then instead of production and deliveries dropping off the plan is to follow a plateau during the latter part of 1953 and through 1954.

The position after 1954 depends, of course, upon policies and appropriations yet to be determined.

In the important field of military hard goods, such as planes, tanks, guns, and ammunition, we have climbed in the past year, and this has been a very significant and encouraging climb from a rate of delivery of around two billion dollars a quarter to a rate of six billion dollars a quarter, but we have to continue that climb and in the next nine months try to reach the goal of an increase of from six billion dollars a quarter to at least eight billion dollars a quarter in these hard goods, hard-to-get items and that is difficult, the most difficult part of the climb in view of the complicated models of some planes and tanks involved.

I also want to mention and lay particular stress on the fact that in the field of industrial expansion, equipping this mobilization base so that in event of total war we would be adequately supplied with the resources to launch an all-out effort in that field, too, we are only half way through. The goal of steel increased from one hundred millions tons a year to a capacity of one hundred twenty million tons.

We have capacity and we have come to about one hundred twelve million tons so there is still an eight million ton capacity to be completed. The completion of that capacity should be delayed two to three months because of the strike.

The same is true in other areas. In aluminum capacity is expected to reach 1.1 million tons as against 719 thousand in 1950.

The end of the three-year program for aluminum calls for at least doubling the output.

Power capacity is striking. Electric power capacity will increase sixty percent to one hundred seven million kilowatts by the end of 1954. The increase alone represents our total generating capacity from the beginning of time to 1942.

I won't mention petroleum products with which you are all familiar, but there are corresponding increases in many other fields, such as sulphur, chlorine, zinc, phospherous.

Then we have perhaps the most difficult problem of mobilization preparedness concentrated in some of the strategic materials, such as nickel, cobalt and columbium, which are vital for our jet aircraft program. We are far from home in that particular sector.

What do all these figures and facts mean? They mean that we are simply on our way, but they mean no more than that. We are part way up the steep climb of our mobilization plateau, but no more than half way up. We have maintained the civilian economy in a reasonably sound state except for the work interruption that I have mentioned. There is rife, however, throughout the land and all of you encounter it in your business everyday, the feeling in that defense production program and mobilization program that maybe now we have arrived and the bad dream seems to be receding.

There is still too much of a failure to understand that we must keep this machinery well oiled and ready for use as long as the current international crisis continues; as long as international communism remains a threat.

The blunt fact, and it is hard for us to accept it because we have never been confronted with this kind of problem before, Americans have usually been drawn into these great conflicts and war followed very quickly after a national realization of the threat to our security and then it was finished and we could go home.

But today we have a new kind of test in which peace and survival depend not only on matching the hostile force at a given instant or at a given time, but of sustaining that strength over the long-term future on an adequate level of military and industrial preparedness. Only a sustained mobilization over a long period of time will enable us to regain the strategic initiative.

Only a steady and persistent use of that strategic initiative that comes with power, and in this world unhappily only with power, over a period of years will thwart the will of Soviet conquest by domination or aggression.

So in leaving you I want to leave this word: I am not an optimist about this situation; I am a pessimist. I am a pessimist about it not because of any lack of confidence in the physical capacity, in the managerial skill of America to do this job; I am a pessimist about it only in terms of do we have the will and the equilibrium and the sticktoiveness to do it. We have made some progress, but the question we must constantly ask ourselves is: Are we doing enough and are we doing it fast enough, and are we going to stay with it until we complete the job.

Thank you very much.

(Applause)

CHAIRMAN HELLANAN: Gentlemen of the Council, Administrator Fowler has indicated his willingness to answer any questions, or attempt to answer any questions, that any member of the Council may desire to propound in connection with this problem of national mobilization.

I know we have thoroughly enjoyed your review of the situation, Mr. Fowler.

Are there any questions, gentlemen of the Council, that you would like to put?

Mr. Hardey?

MR. HARDEY: I think we would be remiss in our duty if while the Administrator is here we did not express some appreciatiom of the office of the requirements of this industry. We know that he has given careful consideration to the reports of the Steel Requirements Committee and that his office recognizes the fact that in order that we might be self-sufficient in petroleum and provide the necessary petroleum products for security, this nation, the PAD recommended an increase of our drilling program from thirty-eight to over fifty thousand wells a year.

We think your office has done a fine job of giving good consideration to the requirements of this industry and I think we would be remiss in our duty, Mr. Chairman, if we did not thank the Administrator for that careful consideration at this time and to solicit his future consideration for the additional requirements that have been imposed upon us by PAD and those in authority who are asking us to continue this job.

CHAIRMAN HELLANAN: That is very appropriate.

(Applause)

CHAIRMAN HELLANAN: Thank you very much, because I think that is a very appropriate statement.

MR. FOWLER: I appreciate a statement of any kind.

CHAIRMAN HELLANAN: Any other questions, gentlemen? Thank you very much, Mr. Fowler.

Gentlemen of the Council, I want the Secretary of the Interior to recognize that in spite of the competition of the two national conventions, the Bohemian Grove, and the temperature of Washington, that the National Council is in good shape to respond to your call. We have a good attendance today, Mr. Secretary. This meeting is getting off to a start which I feel gives excellent promise of a fine program for today, and I am happy at this time in spite of the fact that he knows some feeling of exhaustion after the trying days of Chicago last week to present at this time the Secretary of the Interior, the Honorable Oscar Chapman.

(Applause)

REMARKS OF THE HONORABLE OSCAR L. CHAPMAN, SECRETARY OF THE INTERIOR.

SECRETARY CHAPMAN: Walter, I appreciate your kind introduction and your explanation of the competition we have and I might say that I, too, am quite surprised and pleased to find that the interest and the business of the petroleum industry can still outdraw the two conventions we have just had in Chicago and the Bohemian Grove.

I appreciate that you have responded to a business call and we are down here for that purpose.

I am delighted to see so many of you here for this par-council meeting.

Since we are talking about noncontroversial matters, I am particularly pleased that we have in the Agenda Committee report a request on the possibilities of the development of petroleum from submerged lands of coastal states. I hope that you will seriously give some consideration to that. I notice it is worded very nicely, saying that you are not to discuss the question of title. I appreciate that because the Supreme Court has adequately taken care of that. But you do need to give serious consideration to that question.

So many people, not people in the industry, but so many people outside the industry, have a feeling that we can start developing and producing oil from that very large area just overnight by proving some leases. That is far from the truth, and you people know it better than anyone else, but none of us knows exactly the time-table that will be required to start developing oil from that area.

I am anxious to know and you should know just what it would mean in terms of time and cost, as much as you can get, and I am delighted that you are making that a study by your committee.

Now, I was deeply impressed here with Mr. Fowler's remarks in talking about the steel strike that is closed. For that we are all very happy, but also you are now beginning to pay the price for the steel strike, and you will pay the price for some time to come, you and other industry people.

I am sorry that it delayed things so long, or that we had to have it at all, but we are happy that it is closed and let's hope that we can minimize the effect upon industry and I know that Mr. Fowler, as he has in the past, will give us all the consideration that is possible to see that the necessary materials for this industry will continue to come to us.

I want to take this opportunity to express my appreciation to him for his fine cooperation with my department and with this particular industry in dealing with the necessary requirements of this industry. You have been extremely helpful and we all appreciate it very much, realizing that you do not have an easy task and that your decisions are always contested by one group or another.

We are hopeful that you will remain at this time on the job as you are and continue to support us as you have.

Now in spite of many rumors that I have heard and in some of the columns that I have read we are still in business as the National Petroleum Council and I think we are going to stay in business.

(~~Applause~~)

~~SECRETARY CHAPMAN~~: There is no need for me to go into a lot of discussion about things that you are taking up on your agenda, but you have this morning a man that you ought tp hear from, a man I know you want to hear from, one that you have been cooperating with for a long time in carrying out his duties and obligations and you have been giving genuine support as an industry and I would not take the opportunity now to talk too long to you, but I want to say that I am extremely happy that we have the opportunity to have the Secretary of the Treasury here this morning to speak to you about the problems of his office and your problems regarding our bond sales.

I am happy at this time to introduce to you, or present to you, Secretary John W. Snyder.

(Applause)

REMARKS OF THE HONORABLE JOHN W. SNYDER, SECRETARY OF THE TREASURY.

SECRETARY SNYDER: Secretary Chapman, and gentlemen, this is one occasion in which I have taken a great deal of pleasure in accepting the invitation to come here with you today. The program that I intended to discuss with you briefly is somewhat different in tempo from those that we have been listening to and watching the past few weeks, entirely different because it isn't in any sense a partisan matter; it's strictly nonpartisan in its full scope.

You know in this Washington life, and I am sure that in the petroleum industry you run across a great current of gossip and rumors that keep you puzzled many, many times. There was an instance the other day that sort of points up how we have to be careful about those things. A man came home unexpectedly and found his wife entertaining a strange man at dinner. Before he could say a word she jumped up and said, "It would be just like you, you big gossip, to spread this all over town."

Well, we don't want to spread rumors around about our own family, so in the petroleum industry we have to do that in Washington. That is apropos of the Savings Bond program.

I have had the pleasure and privilege of working with your industry on some very important matters in the past. As many of you recall, the defense plant days during the war when I was running the Defense Plant Corporation here and helping you finance many projects in which you were interested for the defense program, so I know the type of energy that you put into anything that you undertake and that is why I am so happy that you have adopted in your agenda the program of the Savings Bond sales effort in the pay roll savings plan.

When we stop to think of what we have in this great country of ours, what men of your character and ability, your leadership, have made effective in the past decade or two, then we begin to get the full feeling of the dynamic economy in which we live.

When we think of how we took hold at the end of World War II after the country had been geared to a great war effort, how we took hold and switched that whole driving force from war to peace, how we converted from a wartime industry back into a peacetime economy, how we did it practically without interruption to a high level economy, I think that we can take great pride in the leadership of our great free enterprise system in this country.

I saw businessmen do the unbelievable during the war and I have seen them even surpass that accomplishment in the period since the war.

We have undertaken here in this country to take over an economy which was heavily indebted because of the war activities and for seven years we have been going through every type of adjustment almost that is conceivable -- war readjustment, peace, threats of readjustment in the economy, threats of inflation, threats of deflation, and then this defense program that has recently come upon us.

In each instance we have taken hold of it with a great courage and a purpose that has made us able to report today that we have had a continuous high level of the economic prosperity for all the years since the end of World War II. We ended World War II with a great savings bond program. Everyone believed at that time that the savings that had been generated during the war would be quickly used up after the war in peacetime when things became available that had been denied them during the war and when there was less threat of inflation in the adjustment of our peacetime economy.

It has been a fabulous truth that having changed the tempo of the savings bond program from one of sentimentalism, patriotism, to one of pure thrift motivation, as a voluntary program, at one time in the postwar period we had less than five hundred paid employees in the whold savings bond program, and yet, during that period following the war, selling savings bonds on a purely thrift motivation, we have been able to maintain because the citizens of this great nation have voluntarily supported that program and have made it a successful one, more successful in peacetime than it was actually in wartime, the Advertising Council of this great nation of ours has pledged to the savings bond program for the last three years over forty million dollars a year in free advertising.

Anywhere from two to three million people each year do a volunteer selling job selling bonds. Industry has taken hold of the pay roll savings plan and has made it a dynamic part of their industrial operation.

All that has been done as a voluntary program and that is what has made the program the success it has been in maintaining it as we have today, even with all the talk and all of the riding that we have heard about what has happened to savings bonds.

You gentlemen will be pleased to know that the cash value of the E bond is greater today in total than it ever was in the history of the savings bond program. It is tremendous when we think of what the reverse forces that were put on the savings bond during the past months since the beginning of Korea.

I asked a group of people up in New York not long ago, and I said that I am not going to ask you to answer this question, but I want you to think about it, keep it in mind, and I think it will answer itself.

"Could your business take the beating that savings bonds have taken? Could they take the adverse advertising; could they take the adverse criticism through a period of a year and a half or two years and then come out with your sales greater than they have ever been before? You don't have to answer that; you know you must have a pretty good product to be able to accomplish that kind of result."

Here we are now in this defense program with the varying pressures on our economy, one day we think we are going to have a depression, next day we think we are going to have inflation, inflation-deflation, back and forth.

The best thing I think we can do is to encourage a good backlog of thrift for our employees, citizens and on the part of all of us because I believe personally that the best leveling influence on our economy, stabilizing influence, is the assurance of a backlog of purchasing power in the hands of our people. Without question in my mind the two hundred billion dollars of potential purchasing power that was present in the savings of this country at the end of World War II served as a most important impetus to the maintenance of our high level of economy because it was the assurance given to the people of this country of reserves of cash that encouraged them to spend more freely of this current income maintaining our large production and consumption in the postwar period.

We are coming into a period right now where we can be assured that that same pent-up potential purchasing power in savings will serve to prolong our high level of production and consumption after we have solved the defense program which I sincerely hope we are solving now and will have a positive solution in the near future.

There is no question but what we must meet the defense program. You gentlemen would not be here if you didn't feel the importance of what you can do toward that end. You have done a tremendous job in building this great nation of ours into one of the most remarkable nations of the world. The petroleum industry from that day some hundred years ago when it made its first discoveries, as I recall, it may have been longer than that, but you have developed transportation to the point where we have become a single community and distance has been removed.

The many things that the petroleum industry has done to contribute to the growth and prosperity of this nation is endless. So when we come now to add to your burdens of the great job that you are doing in the defense program today in trying to supply adequate fuel, an adequate supply of gasses, all the different things you are trying to supply in the petroleum industry, we are asking you to take on one more assignment, and that is encouraging the people of your organizations to take part in the pay roll savings plan.

I deeply appreciate this opportunity of visiting with you for a moment. I want to tell you that I think what you can do for us in the pay roll savings plan is of great value to us. After considerable persuasion we have talked your great friend, and ours, Sidney A. Swinburn, to take over the chairmanship of this drive in your industry.

I am deeply grateful to him for undertaking that job, and I also want to thank the Gulf Oil Company for cooperating and permitting him to take that assignment.

I want to thank each of you for what you have done and I want to give you an added thanks for what you are going to do in helping us in the pay roll savings plan.

(Applause)

CHAIRMAN HELLANAN: Thank you very much, Mr. Secretary.

You will recall, gentlemen of the Council, that at a meeting of the Council in April of 1950, the Under Secretary of the Treasury, Mr. Foley, appeared to present a citation to the National Petroleum Council which I now read:

"United States Treasury, Distinguished Service Award. To the National Petroleum Council for leadership in building security for the people and the nation through United States savings bonds. Awarded under my hand and seal April 26, 1950, John W. Snyder, Secretary of the Treasury."

I think it is generally accepted that the petroleum industry has led the way among all industry of the country in the promotion of the pay roll savings plan and that is our intention to continue.

In the report of the Agenda Committee this morning it was approved that the Council should give further consideration to the extension of our cooperation in this movement, and the Chair at this time desires to recognize Colonel Drake to present a resolution.

COLONEL DRAKE: Mr. Chairman, Secretary Snyder, Secretary Chapman, and members of the Council: In keeping with the long-time policy of the petroleum industry in cooperating actively and wholeheartedly with the United States Government whether in peace or war, I take pleasure in presenting the following resolution:

"Be It Resolved, that the Chairman of the National Petroleum Council be and he is hereby authorized to continue to take such steps as he may deem appropriate to bring to the attention of the members of this Council and to the petroleum industry the efforts of the Treasury Department to promote and extend the pay roll savings plan and to invite the voluntary support of the entire industry in making available to company employees such plan for the acquiring of U.S. defense bonds."

I move the adoption of this resolution.

CHAIRMAN HELLANAN: You have heard the resolution presented by Colonel Drake.

Are there any remarks?

Is there a second?

(The motion was seconded from the floor)

CHAIRMAN HELLANAN: It has been seconded.

All those in favor of adopting the resolution will indicate by saying aye.

Opposed, no.

The resolution is unanimously adopted.

SECRETARY SNYDER: Mr. Chairman and gentlemen, I want to thank you deeply for that resolution. It sends me away from here happy because I know that having resolved to do that job for us success is imminent.

MR. MAJEWSKI: I wonder if we could have Secretary Chapman remain with us for a few minutes?

CHAIRMAN HELLANAN: Mr. Secretary?

SECRETARY CHAPMAN: Yes.

MR. MAJEWSKI: In your usual few words you said that you think the National Petroleum Council will continue on the same old basis. Not that I am skeptical because I have great confidence in you; you have done a terrific job on behalf of small businessmen in oil in continuing this council on the basis that it was created by President Truman and fostered and nurtured and administered by your good self.

So I say advisedly that the small busniessmen need this national Petroleum Council on the basis that it was created, having its own industry chairman, having a small staff, and complying with all the rules of good government and so forth, not to some set of rules that are changed in the middle of the game every now and then.

I, too, was in Chicago; I am right around the corner from all of the hotels where the Presidential ambitions were nurtured and became not pregnant, but exploded prematurely so I had a good chance to look at what was going on with respect to the way our government operates.

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I was glad for those two conventions.

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It shows the American way. You who have been an outstanding example of the fostering and the keeping of the free enterprise system, particularly in oil, and working out what President Truman -- not many things good are being said about President Truman today by people, probably including myself on all counts. But I have to say and I want to say that in creating this industry-government team he had vision and foresight and the effect of it is known throughout the land.

What I wanted to say to you was in spite of the rumors and the stories that were planted, and I don't know by whom, in Chicago -- but there are the newspaper reporters and even Colonel McCormick's great newspaper that I get along with pretty good. I live there. I maintain a good press over a beer or two. I don't have any paid relations staff. Beer is a great leveling influence in my negotiations with the press, and some hard liquor helps sometimes. But that is what I learned, that D. J. is again afoot. They have got to upset something. Someone is unhappy over there. I thought every time that they changed a few fellows over there maybe they would take a little time to learn about this racket, instead of starting to condemn us.

What I want to say to you is to thank you from the bottom of my heart and sincerely on behalf of this industry for what you have done to preserve this team. I want to say we independents resent the making of unsupported allegations against the oil and gas industry and people who are in your service, sir, who came from the oil and gas industry. I do not want to go into the merits of these unfounded charges and allegations, but they do reflect adversely on you, sir, and this fine organization that you have created called the P.A.D.

What I wanted to conclude with is this: That the independent oil man represented on this Council, the small business man, , would have no other forum, that is, that is as fair and as adequate for his participation in this defense effort, unless you continue to do what you have so nobly done. We have no way of protecting what is our birthright, our participation in a national effort which is in the public interest and for the purpose of guaranteeing security and freedom from further aggression by those who seek to destroy this great country.

I urge you, if you will, to keep a stiff upper lip like you always have. If you need a few punches from the Middle West, call on us, but I plead with you and urge you to continue this magnificent fight that you have maintained to preserve the integrity of this team on the basis on which it was created.

SECRETARY CHAPMAN: I appreciate very deeply what you have said. Your remarks are far more serious in terms of what it means to the industry and to the little man than a lot of people outside of this industry realize. I have long since in my connection with this industry realized that the little man, the small operators, had to have a forum where they could meet on equal terms with any other segment of the industry. I

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have felt that this was a proper forum for that. I have done all within my power to secure that position for them so they could have an opportunity to present their cause and present it honestly and fairly and let it be debated. I think when you bring together the various segments of the industry under what I consider an impartial administration, as impartial as I know how to make it, I believe that the good interest of all the people will be served and certainly the interest of those who are members of this Council in the small industry group will better be served by this type of organization than any other that I know.

I have been licked many times but I have never quit a fight. I do not believe there is going to be any change in our program. I have had no official word from anyone concerning it whatsoever. I do not believe there will be any change. There will probably be conferences, discussions and we may have to discuss things with them to try to vary some rules and regulations that might fit into this. I do not object to going into conferences with them. Remember after all the Justice Department has its full responsibility to meet in terms of how they handle the programs of all the industry people under the laws which they have had to administer. I do not object to their inquiring into the Council I operate under the Department of Interior. I welcome their inquiry as to any Council we have been operating under the Department. I believe that when they make that inquiry and if they do, they will find that this is the most equitable and the fairest operating Council they have found anywhere in the Government.

You have a Chairman of this Committee, a man whom I can conscientiously say has tried to do this job impartially as Chairman of this Council. He has tried to give advice to the Secretary of the Interior on what I consider an impartial basis. The agendas which you have been considering from time to time have been presented and discussed by the Department itself before they were given to you. We have had opportunity to look them over. I said to this Council when it first set up that if any group combines to violate the law, I would be among those who would help prosecute them. I still say that.

I say in the same sentence that I have confidence in these people that are here today and the industry they represent. I have confidence in them that they are trying to do an honest and fair job. I believe that is what is going to be done and will continue to be done. When I say to you we are still in business as the National Petroleum Council, I say that because I believe we are going to stay in business. I do not get discouraged at too many rumors. Most people are rumored out of Washington as a rule. If you just sit tight, do your job, you can answer those sometimes and you have the chance to present your cause. That I am sure I will have had before anybody will make a chance in this Council. I will have an opportunity to present the real cause of this Council. I believe that will be done. When that is done, I have no doubt about the outcome.

MR. MAJEWSKI: Thank you, sir, and God bless you.

This is not a parliamentary inquiry, Mr. Chairman, but did you know you are getting into prominence, or one of your colleagues is getting into prominence? I learned how to talk, poorly as I do, from reading Vital Speeches, which is a publication that comes out every now and then. In the July 15 issue I recommend for everybody's reading an article in there because I find in there along with General Douglas MacArthur -- this is the only time I disagree with you. I do not think he is the greatest General. I think he is one of the great Generals, but the greatest General is going to be the next President of the United States. In this Vital Speeches there is "Freedom of Men" by Herbert Hoover, "Progress in the South" by Harry Truman, "Dedication of Bull Shoals" -- that had me confused there, and "Norfork Dam" and "What Did Our Forefathers Try to Accomplish", by a fellow from our part of the country, and "Old Glory Given on Flag Day", and down there was Bruce K. Brown, Deputy Petroleum Administrator who appeared before the Division of Marketing in Boston on May 19 and made a very good speech. If you want to learn how to make speeches, read this issue of July 15, and I get no commission.

God knows I would take it. I want you to hear what Bruce Brown said to those marketers in petroleum who were proud to have him as the Deputy Administrator. Don't forget to read that.

In that galaxy of stars, even though most of them are Republicans -- well, just read it.

CHAIRMAN HALLANAN: We are coming along to that in the course of our proceedings here today. May I ask at this time if Brigadier General Alfred Johnson is in the room? General Johnson, will you please come forward?

I want to present to the Council Brigadier General Alfred H. Johnson, Executive Secretary of the Munitions Board, to discuss the military petroleum requirements. General Johnson.

STATEMENT OF BRIGADIER GENERAL ALFRED H. JOHNSON, U. S. A. F., EXECUTIVE SECRETARY, MUNITIONS BOARD.

GENERAL JOHNSON: Mr. Chairman, members of the Council: I am certainly happy to be here. About five minutes before this Council met I was assigned the responsibility and afforded the privilege of a task which gives me great pleasure. There is a communication slightly delayed in the mails, and I believe intentionally, for the purpose of presentation to this Council. With your permission, sir; "Mr. Bruce K. Brown, Dear Mr. Brown: Personally and on behalf of the Department of Defense I want to thank you for your great contribution to the defense effort during your more than ten years of service in the petroleum field. Your technical knowledge, sound advice and ability to plan and execute major construction and production programs played a large part in supporting the military requirements for petroleum products during both World War II and the Korean conflict. You are leaving behind an enviable record of service in behalf of the security of our nation. Sincerely yours, Robert Lovett."

CHAIRMAN HALLANAN: Will you please come forward and accept this letter from the Secretary of Defense, Mr. Brown? (Applause.)

GENERAL JOHNSON: The Department of Defense has just finished a fiscal year, as all other departments of government have, and I believe it might be opportune to review for you certain of the problems we had during the fiscal year 1952. As Mr. Fowler has explained to you, it was a period of gradual acceleration in the expenditure of funds for the obtaining of hard-to-get items. That acceleration in regard to its effect on petroleum took place primarily during the last half of the fiscal year, the first half of the calendar year 1952. Producers for the armed services started accelerating deliveries of equipment requiring petroleum. The Department of Defense activities were increased materially. Our overseas deployment of forces and equipment using petroleum increased a great deal.

In general delivery of petroleum did not keep pace in several instances with the acceleration, deployment, usage, and delivery of the petroleum-using equipments. You would normally expect that the Department of Defense would build up stocks to take care of mobilization and redeployment for strategic and tactical purposes not only of the equipment but the petroleum throughout the world, petroleum stocks. Our analysis indicates that in the cases of aviation gasoline, jet fuel, diesel and navy special fuel oil we were unable to build up our stocks to an efficient operating level necessary to take care of the accelerated delivery of equipment and the deployment of our forces to tactical use.

I might give you a few examples of the consumption increase. Aviation gasoline stepped up during the year close to 25 percent. Jet fuel was up 50 percent. Navy special was up about 10 percent. A great deal of the acceleration was during the latter part of the year, the latter half of the year.

I realize our stock position suffered some from the result of the interruption in the production and refining industry. So much for 1952.

We were a little disappointed in what we got. It resulted in some inefficient distribution operations, although it did not affect seriously the actual operations out in the field. Our training during this interruption caused by the strike was handicapped. In fiscal year 1953 we anticipate further increases and greater acceleration in delivery of petroleum-using equipment. In 1952 where we had programmed some 150 million barrels, 1953 is slightly in excess of 210 million. The greatest increases will be in the jet fuel, diesel, mogas, avgas and navy special all across the board.

We expect aviation gasoline usage to go up another 25 percent, jet fuel 100 percent, and smaller increases in the other categories. If our experience during July is any criteria, we are up against one tough problem. Between the Department of Defense's increased demands and the actions of industry, or reluctance in some cases, we have put PAD in one tough spot. PAD is working with us constantly striving to get offers and promised deliveries of petroleum products. I will not go into details as Colonel Brown of the Armed Services Petroleum Purchasing Agency will cover just how we stand. But I do want to emphasize that now is no period for complacency either on the part of the government or industry and members of this Council in regard to the supply-demand picture for military products in the petroleum field. We are going on up.

What I have covered is primarily current so-called peacetime operations. We are not in a position even to start making a dent in what we have to do in case we have an emergency. That is the general picture as we see it today. I will be glad to answer any specific questions, Mr. Chairman.

CHAIRMAN HALLANAN: Are there any questions, gentlemen?

MR. WILSON: Have you been able to build up reasonable stockpiles of aviation gasoline and jet fuel?

GENERAL JOHNSON: All the stock figures are not in as of this date. I have most of them. Our stock position on aviation gasoline dropped during the last fiscal year, if anything.

CHAIRMAN HALLANAN: Thank you very much, General. (Applause.)

CHAIRMAN HALLANAN: Following the statement of General Johnson I should like to present Colonel Douglas R. Brown, Executive Officer of the Armed Services Petroleum Purchasing Agency who will discuss the military petroleum procurement. Colonel Brown.

STATEMENT OF COLONEL DOUGLAS R. BROWN, EXECUTIVE OFFICER, ARMED SERVICES PETROLEUM PURCHASING AGENCY.

COLONEL BROWN: Gentlemen, when I first heard I was to address this distinguished group, and I might add a famous member who has been in the spotlight the last couple of weeks, I was wondering if I was going to be like the little girl who during her mother's absence went upstairs, went into the bedroom, opened the dresser drawer, and took out her mother's corset. She put it on and then she discovered she didn't have the guts to wear it.

As a newly appointed executive officer I am happy to be here at my first meeting of the National Petroleum Council. I appreciate the opportunity to hear firsthand from the

Council and all PAD officials of the fast moving developments in the petroleum industry.

Further, I feel this is an opportune time to address the Council as we are experiencing great difficulty in acquiring necessary petroleum products to meet expanding military needs, products which present particular problems being high octane gasoline, jet fuel and diesel fuel. Requirements of navy special, which is normally a critical item, have been covered in full for the first six months in the fiscal year on the east coast the Gulf Coast and on the Caribbean areas. A shortage of 2,100,000 barrels still exists on the West Coast. We anticipate difficulties in procuring this product during the last six months. We believe the effects of the steel strike have been responsible for our ability to procure our current requirements.

The West Coast requirements are becoming more and more difficult to meet not only on navy special but all other products. ASPPA is extremely concerned over the fact that West Coast refineries are unable to offer us anything over our military requirements that we have had in the past. As an indication of the magnitude of the problem, we are now short of coverage for the current six months period ending 31 December approximately 5,200,000 barrels of Grade 115. Gentlemen, this is against a requirement of about 13,000,000 for the first six months, so you can see the percentage is very great in lack of coverage.

In jet fuel we are short 6,000,000 barrels. The requirement is 16,000,000. We recognize that the gas problem is one primarily of capacity, but this would certainly not seem to apply to jet fuel and diesel. This lack of coverage has been reported to PAD and on numerous occasions. Numerous meetings have been held with that agency to discuss ways and means of meeting military demands. I am sure PAD has made every effort short of directives to industry to secure increased product; nevertheless, industry has not responded to these efforts as shown by the shortages just quoted.

The serious aspect of not being able to meet military consumption requirements is that these requirements must be made up from already inadequate military stocks. You asked General Johnson about reserves. Gentlemen, we have very, very small reserves, and those are in overseas areas in strategic locations. This has caused a serious deterioration of stock levels that has become progressively worse during the last 60 days. Deficits of the present period, if not met, must be carried over to subsequent periods which in turn will tend to create great demands on industry in the later periods. The military recognizes one of the problems industry faces in meeting military demands is the lack of alkylation capacity required in the production of your high octane fuel. To improve this the armed services with PAD's help expended great efforts in securing funds from the Congress to carry out a program for the expansion of alkylation facilities. This program guarantees through contract that no financial loss will be experienced by the parties. I shall not gointo the details of how this works, because Mr. Spering of PAD who worked very closely with us on this entire program will cover this in detail later on in the meeting.

The results obtained by this alkylation expansion program has not been at all satisfactory. We have had perhaps 11,000 barrels out of a requirement of 31,000 barrels per day production. Of those 11,000, we have been able to sign very few contracts. I believe that the lack of response by industry to this program is not necessarily the fault of industry but is due to lack of complete understanding of what the program means and actually stands for.

I further believe that this program can be successfully accomplished through personal contact of ASPPA and PAD with industry's top leaders. We have just instituted a program whereby we are sending out representatives to contact industry along with Mr. Spering of PAD who, by the way, has done an outstanding job for us. The National Petroleum Council has set an exemplary record of meeting military needs and accordingly having made you aware of our problems and with the able assistance of PAD you will again accomplish the task of meeting our military requirements.

If you have any questions I will be glad to answer them.

CHAIRMAN HALLANAN: Are there any questions of Colonel Brown? Do you want to go further into the matter of shortages in more detail at this time as to the particular shortages that are threatening you and embarrassing you at the time?

COLONEL BROWN: The shortages that are bothering us worst are the high octane fuel, 115 and 140 and also jet fuels. I would like to cover it in a little greater detail, but for security reasons I cannot do it. If I could tell this group our position at the present time in the United States with reference to the number of days that we could operate if war were to break out tomorrow, it would make a vast difference, but I am not at liberty to say that today.

MR. HARDY: I would like to ask if these shortages you were talking about during the past 60 days were caused by the shortages in refining operations and whether you anticipate amending this situation if production is resumed?

COLONEL BROWN: We thought jet fuel would come back into production very shortly after the strike ended, but it hasn't. During the strike the military reduced its activitiesapproximately 50 percent in order to conserve what fuel it had. We managed to keep our stock levels on a fairly even keel and even gain some stock during the strike. As soon as the strike ended instead of us improving our position, our position started getting worse and has materially during the last 60

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days. So I cannot account for the fact that jet fuel is not being offered to us. I can account for high octane because of the lack of production.

MR. WILSON: I cannot speak for the last month because I am not familiar with what may have transpired, but I do know in the spring there were a number of offers in the interior where tank shipment of base stocks from one location to another were at higher than normal cost and that was turned down. Is there enough to make up that shortage by means of going down the normal price range for a normal production without those transshipments?

COLONEL BROWN: In accordance with the figures developed by PAD, there is sufficient production to meet our requirements based on incremental fuel purchased, which is very expensive. I would prefer that a member of PAD give you that information, because they have made a study of it.

MR. WILSON: That would quickly come in if there were a real emergency.

COLONEL BROWN: Actually the military is willing to buy incremental fuel in high octane.

CHAIRMAN HALLINAN: Thank you very much, Colonel Brown.

Gentlemen, our very close friend and associate, Ed Warren, who has succeeded to the position of Deputy Petroleum Administrator, has been in charge of the activities of PAD now for some considerable time, and I am very glad to have the opportunity now to present our former Council member who has taken over the duties of the Administrator to make some preliminary statements and then to present msome of the embers of his staff to review a number of the interrelated problems that come to the Petroleum Administration for Defense.

I would like now to present Mr. Ed Warren, Petroleum Administrator for Defense.

STATEMENT OF J. ED WARREN,

DEPUTY PETROLEUM ADMINISTRATOR.

MR. WARREN: Thank you, Mr. Hallanan, and I also want to, on behalf of PAD, thank the industry and the National Petroleum Council for the continued cooperation that we are getting in carrying on our defense responsibilities. You probably know that Congress has curtailed the appropriations to the defense agencies. PAD has been trimmed some 22½ percent and we have had to go through each one of our divisions in order to accomplish the economies that are necessary. We have abolished the manpower division, a division which was helpful to the industry, and we have curtailed the Congressional liaison unit. We are still in the process of making further economies. Our whole purpose is to maintain the efficiency and effectiveness of the PAD organization. We have to keep those divisions that are most vital to the operation of our defense responsibility.

When I came into PAD four months ago I found an organization that was well set up as far as the operational pattern. Committees were set up to consider every policy matter and decision with representation from each segment and with people with special technological training to meet the particular problem that was being reviewed. I found morale had been generated through the leadership of Bruce Brown and I think a general acceptance by the industry and an understanding of the necessities of PAD in carrying on the defense responsibility. But in spite of that I felt that I ought to independently reach a conclusion for my own guidance and to acquire direction as Deputy Petroleum Administrator during this next tour of duty that I have undertaken. I have found there were two areas of misunderstanding. One of them came chiefly from people in Government and the other from those in industry. I might say some segments of government -- I know Mr. Fowler will not go around with this -- they feel the methods of PAD, industry cooperative methods, are probably not the right ones. There is no reason for me going into this and I might say also from the standpoint of organization that there is no use of me going into this with this group, except to say this: That PAD as it is set up is not the arm of industry. The group here is doing a job for government because they know that industry cooperation is essential to getting the job done the best way, as it has proved in PAW days and the defense effort since that time. The misunderstandings, and I say they are few, as to the other area are those of responsibilities. What is PAD responsible for? What is the job they have to do?

I think Mr. Fowler pointed out some of the points and I am sure that many in the Council feel that the responsibilities of PAD are really a lot more limited than they actually are. Mr. Fowler pointed out that we are part of an entire defense program. Many of the procedures and programs that are set up are set up for industry generally and not just for petroleum alone. So with that in mind I have asked Elmer Batzell, our Chief Counsel, to talk to you a little bit along that line to clear up some of the misunderstandings. Mr. Batzell has been Chief Counsel for the past year. He was in PAW during the war. He has practiced law here in Washington and will return to serve his tour of duty or finish it on September 1. I think he has, as Bruce Brown expressed it at dinner, a very clear understanding of the mechanisms that make up the programs of government and our inter-agency relationships. Mr. Batzell, will you take over, please?

STATEMENT OF ELMER E. BATZELL,

ASSISTANT DEPUTY ADMINISTRATOR (GENERAL COUNSEL)

MR. BATZELL: Thank you, Mr. Warren. Mr. Chairman and gentlemen: I have done something that I never do. I have written out what I am going to say. I did this partly because I was supposed to stay within ten minutes, partly because we are faced with an interesting situation today. We are in the middle of a political campaign. We have rumblings from the Department of Justice. We have problems of a steel strike that has just terminated. We have a question about what we are all doing here and where we are going and what are these inter-agency relationships with which we have to deal in getting the job done. I have pitched these remarks on the basis of the original principles on which this Council was founded and has been operating and under which, through the medium of this Council and the petroleum industry in general, the Petroleum Administration for Defense was established to build the petroleum resources of the free world and a means of making those resources promptly and immediately available against the threat of open warfare, and that is a trust of high responsibility.

It was to discharge this trust, to meet this responsibility, that the industry was called upon and the Petroleum Administration was established.

This Council was asked to expand its charter so that it could cooperate with the Government in the discharge of that trust. The Petroleum Administration and the expanded responsibilities of this Council came into being after the commencement of hostilities in Korea. Those hostilities continue. There is little in the world situation today which bespeaks cessation of a threat of even greater hostilities. There are a good many matters that have been successfully handled in the past year and a half, but the basic fact is that this nation and the petroleum industry are not yet fully equipped to provide against the staggering demands of an all-out war. The basic responsibilities placed upon PAD and upon the Council and the trust which they willingly assume remain for fulfillment, for full accomplishment. So long as there is a defense program participated in by all industries,there will remain a need for participation by the petroleum industry in that program and for a government agency staffed by petroleum experts who can assist in making certain that the necessary facilities, wells, pipe-lines, refineries, tanks required to effect petroleum supply, are built and made ready against a war demand.

Even more than assuring the physical plant, there remains the need for a government-industry team which can move quickly and vigorously to assure adequate petroleum supply. Mr. Fowler as Defense Production Administrator has pointed out that we are perhaps halfway along the total mobilization program. There is no point in starting a 440 yard dash and quitting ten yards from the finish. It is important to do well the remaining portion of our job.

Much has been achieved in the expansion of physical facilities but neither this achievement nor the remaining job could be successful without the program work of industry and inter-agency understandings and relationships which have been developed. These basic tools are indispensable to the success of a petroleum program. They must not be permitted to rust in idleness occasioned by misunderstanding, neglect, or collateral attack. My emphasis here is on the relationship of PAD to other agencies, but the relationship between industry and PAD is no less important to the successful discharge of the responsibilities we have assumed.

This agency has been fortunate perhaps in enjoying a greater degree of power and a greater latitude in the exercise of that power than most defense agencies. These powers, however, do not exist separately and independently but only in cooperation with other defense agencies. So long as these other agencies continue in existence to meet a defense need, there remains a need for a Petroleum Administration competent to assure the most appropriate distribution of materials and products in the interest of the defense program.

When PAD wants steel to do a defense job, it must compete with every other agency that wants steel to do its defense job. While PAD has the a power and authority to distribute the materials it gets in the best possible manner within the industry, it does not possess any right to an unlimited quantity of materials to accomplish its need. It must fight and fight vigorously for the Defense Production Administration justifying petroleum on the basis of its relative essentiality to the defense program. It must withstanding the competitive attack of every other seeker of materials. Once having gotten its supply, PAD must distribute to the best interests of the defense but the mechanisms for distribution cannot be completely separate from the mechanism generally applicable to all industry for otherwise it is impossible for the suppliers of steel, copper, heat exchangers, compressors, to know the priorities and rules under which distribution must be made. Accordingly, any PAD materials distribution program must at least be within the framework and use the same symbols and concepts as the general materials distribution systems established by the National Production Authority. To be sure, most general distribution systems do not fit the peculiar problems of the petroleum industry. It is for this reason that the PAD has developed an M-46, an M-46A and M-46B order. While these orders are calculated to adapt the NPA system to the petroleum industry, the orders do not and cannot operate independently of the general principles of the materials distribution program. That is especially important today in thinking about the developments and what will happen in connection with the release of steel following the strike operation.

In effecting our distribution of materials under our present order system they should at least be bound by the general principles of distribution and the general regulations as established by the Defense Production Administration and the National Production Authority.

PAD is the petroleum expert not only in matters of material claims and distribution but also in matters relating to financial aids required to assist in assuring adequate defense supplies of petroleum and its products. Its authority for final action in this area is, however, less than in the case of materials. In the matter of necessity certificates for accelerated amortization, PAD must establish its special rules for particular cases within the framework of the general policies of the Defense Production Administration. When loans are made, DPA standards as to defense necessity must be utilized for analysis; while as to financial soundness the analysis and the loan itself must be made by the Reconstruction Finance Corporation.

In matters of price the Petroleum Administration has no direct concern, except (a) as it may be called upon by the Office of Price Stabilization to render expert analysis and advice, or (b) as it may positively request of OPS price reconsideration or adjustment because of price structure as established which constitutes a direct, immediate and far-reaching barrier to the supply of petroleum and its products for defense objectives. Although the Petroleum Administration's relationship to the price agency may in general be considered casual, it has on three occasions a vital concern to the defense program -- avgas, navy special and East Coast heating oil --- been a somewhat more intimate one, if I may use that word.

In each of these instances the intimacy was necessitated by the conclusive fact that the price structure as existing or proposed raised an insurmountable barrier to the achievement of PAD's supply objectives. Where government contracts have been required in aiding the development of such direct defense products, the military authorities rather than PAD have negotiated not only the final agreement but have established the basic minimum conditions.

On the other hand, the appropriateness of the price both in such contracts and in the negotiated aviation gasoline arrangements approved by OPS has been a matter determined by PAD certification. Loan, necessity certificate, and material applications for strategic storage, for example, to be built under contracts entered into independently by the Defense Department are processed by PAD. Where shortages exist in petroleum products, PAD is responsible for not only making available maximum supplies for meeting defense obligations but deciding, subject to final review by the Defense Production Administrator, among competing requirements. Here PAD must lean upon other agencies such as the military, the Defense Production Administration, the Defense Transport Administration, the National Production Authority, the Department of Agriculture, the Civil Aeronautics Board, the Department of State, the Mutual Security Agency and the Office of International Trade for information and advice as to the relative demands as well as the relative urgency.

A failure by PAD to meet its responsibilities such as those arising as a result of a recent strike would, under existing authorities and responsibilities, result only in their eager discharge by some other group. PAD's responsibilities are clearly, inextricably hinged with other agencies engaged in the defense program. PAD's responsibilities are also broader areas than are the responsibilities of many defense agencies. Under Executive Order 10161 PAD has a world-wide responsibility for the adequate supply of petroleum and its products. This necessarily poses a different and more complex problem from that posed to many other agencies. It is this broader obligation which has made necessary such collateral agreements as the foreign voluntary agreements, plan of action No. 1, the foreign petroleum committee and the foreign petroleum materials committee.

In undertaking its basic responsibility, the Petroleum Administration has assumed a number of subordinate obligations. Among these are to regulate by order and directive no more than is absolutely necessary, to continue regulation no longer than is absolutely necessary, to disturb competitive relationships as little as possible, to rely to the maximum extent upon industry know-how in the accomplishment of objectives, to establish a government-industry understanding which will maximize the benefits of private initiative while assuring fuller recognition of the public interest, to terminate this agency, the PAD, as quickly as the basic trust is satisfactorily discharged."

In fulfilling these obligations, as in discharging that basic trust, PAD must operate with the tools of industry understanding and inter-agency cooperation. There are many factors differing at different times which obscure the main objective. Political campaigns, jurisdictional battles, Congressional inquiries, investigations, conflicting views as to government control and industry freedom are a few. These are part of the problems of government. But such distracting influences, important as they may be, do not relieve either PAD or the industry of the basic trust which they have assumed in preparing this nation against the possibility of an open war.

The basic job which we have undertaken is not yet finished. It will require the wholehearted effort and cooperation of all to assure its completion. That cooperation must be both between industry and government and among the several government agencies themselves. The framework of industry and inter-agency relationships erected to do the job must not be permitted to be destroyed until the job is done. Then and then only should they disappear.

The distracting influences which would vitiate our basic objectives must be subordinated to the job that remains to be

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done. I know full well that the d industry now as never before in this defense program will keep their eyes on the ball. I think it is a real question whether we in government can meet the same challenge and collectively keep our eyes on the ball. Thank you. (Applause.)

MR. MAJEWSKI: Can I inquire as to whether these reports are a part of the record of the proceedings and will be made available to the Council membership?

MR. WARREN: These that have been prepared will be.

The next man we have on our program, Mr. J. Edward Brantly, is known to many of you as Ned, and has joined PAD in place of Mr. Snodgrass. He took over as Assistant Deputy Administrator in charge of Foreign Operations on June 1, Many of you know Ned. He has been in the exploratory and development end of the oil business for many, many years. People like Frank Porter and groups in the drilling business know that Ned did a lot toward the formation of the American Association of Oil Well Drilling Contractors. He was President of the Association for two years, the first two years, and helped put the thing together. He has contributed to the technology of drilling such things as the Brantly feed control.

Ned had retired. He is an oil producer and drilling contractor. He had intended to retire on the first of June and move to Florida, but after very much persuasion we got him to come up to Washington and take over this chore. Mr. Brantly will talk to you on Foreign Petroleum Operations with particular emphasis on the voluntary agreement, Plan of Action No. 1.

STATEMENT OF J. EDWARD BRANTLY, ASSISTANT DEPUTY ADMINISTRATOR

MR. BRANTLY: Thank you, Mr. Warren.

Mr. Chairman, members of the Committee, gentlemen: It is a great pleasure to appear before you gentlemen, the leaders of the industry. I do not feel too much out of place because I see a few drilling contractors scattered around the hall. I don't think I shall go into the foreign operations today because of lack of time. I shall confine my remarks to the voluntary agreement and the Plan of Action No. 1. You gentlemen whose companies have foreign operations are more or less familiar with these two instruments. But those of you who are not familiar with the operation abroad will be informed by it, I think.

The Petroleum Administration for Defense, legally established in October, 1950, commenced effective operations in December, under the Defense Production Act as a part of the defense effort that was initiated during that year. The foreign branch was organized in February to coordinate the information on facilities and materials for production, refining, and transportation and to assure the most advantageous distributions insofar as possible to the end that our own nation and the friendly nations abroad might have their essential requirements of petroleum products. As distinguished from other defense agencies concerned principally with domestic production, the Executive Order under which PAD was established placed upon the agency the responsibility of an overall worldwide supply of petroleum and its products.

In early 1951, practically all usable refineries throughout the free world were running at about their normal maximum capacity. Transportation facilities were likewise being operated at practically their maximum normal capacity. Only crude oil production was in comfortably adequate quantities. Owing to a greater consumption than had been anticipated and as the result of the refinery and transportation situations, the supply of products throughout the free world was in very delicate balance with essential requirements.

It was necessary to the security of our own nation and the friendly foreign nations that adequate stocks of petroleum be maintained at vital and critical points throughout the world. In order that this might be done production, refining capacity and transportation and distribution facilities had to be maintained and increased to provide for the steadily increasing demands for essential civilian use and for the ever increasing requirements of the military.

In order that provisions might be made to satisfy these various requirements, it was necessary that there be available to PAD, as the Government agency responsible for petroleum supplies, complete information concerning the consumption of petroleum abroad and the operations of the foreign petroleum industry. These operations included crude oil producing, refining, and transportation, all needed to meet the requirements of the friendly foreign nations.

This information could not be satisfactorily gathered by PAD or by any other Government agency through existing channels; it could only be obtained in forms suitable for effective government action from those companies operating throughout the free world that were using such statistics and estimates every day and that were organized to determine them promptly and reliably. No agency could assimilate and put into final satisfactory form the information available in the various and sundry operating companies, many of which were nationals of foreign countries and operated exclusively in areas other than the United States. Therefore, it was necessary that these companies be encouraged to work with PAD and to participate in a mechanism under the close guidance of this governmental agency, in order that satisfactory estimates might be developed having to do with past, present, and future supplies and requirements. These final figures could only be determined within a reasonable degree of accuracy after comparisons, discussions, and recalculations into final estimates.

Discussions of these problems were first undertaken in December of 1950 and from time to time during early 1951. But there was no mechanism then in existence under which a coordinated effort of foreign operating companies could be organized. During this early part of 1951 the foreign section of PAD was in a formative stage, basically engaged in perfecting an organization, designing machinery for use in the requisition of information, developing interagency relationships, and overseeing appropriate distribution of material.

In April of 1951 the operations of the Anglo-Iranian oil properties and refinery were interrupted briefly by a strike. There was a threatened loss of 660,000 B/D of crude oil production resulting in a net loss for export of 150,000 B/D of crude and 460,000 B/D of refined products. Thereupon, conversations concerning the machinery and procedure for coordinated action directed toward supplying the friendly foreign nations with petroleum products became more intensive. The shutdown of the Anglo-Iranian properties in May and June of 1951 further intensified these conversations. Immediate action became essential in obtaining accurate information on current and future requirements for and supplies of petroleum products that could be and must be made available to the friendly foreign nations.

The "Voluntary Agreement Relating to the Supply of Petroleum to Friendly Foreign Nations" which came into being on June 25, 1951, was the result of these deliberations that had been under way for several months. It provided PAD with an effective means of discharging the duties for which it was organized, insofar as foreign operations were concerned, under the then abnormal conditions.

This Agreement provided means approved by the proper authorities of the Government under which those American oil companies operating in foreign service could through their joint efforts, as required by the Government, ascertain data on stocks, operations, available supplies and consumption estimates of petroleum products throughout the free world. This information was essential as the basis for taking such steps that might be necessary to assure that the requirements of the friendly foreign nations and our own nation might be met. Nineteen companies became members of the Foreign Petroleum Supply Committee under this Voluntary Agreement and functioned through nine subcommittees, all of which, together with the main Committee, were under the direction and close observation of the foreign section of PAD.

The Voluntary Agreement Relating to the Supply of Petroleum to Friendly Foreign Nations likewise provided for the organization of plans of action as means for the solution of such emergency or critical problems of supply that PAD might request the Committee to consider. Such an emergency was created by the Iranian shutdown.

Immediately succeeding the Iranian shutdown a serious imbalance existed between the supply and the free world requirements of petroleum products. It was necessary, therefore, that immediate action be taken to assure that the friendly foreign nations, and particularly the military, would receive petroleum products of the proper specifications when, as and where required. As provided for under the Voluntary Agreement, Plan of Action No. 1 was brought into being on July 26, 1951, specifically to deal with the shortage of products resulting from this Iranian shutdown. The purpose of this Plan was to permit, under the direction and close supervision of a governmental agency, cooperation amongst and between foreign operating companies that would permit them so to organize their schedules of production, refining, transportation and distribution that the essential requirements of the friendly foreign nations could and would be provided.

The results of these efforts were highly successful. It is impossible in this brief report to detail the activities. A number of meetings and schedules, duly recorded in the minutes and carried out in close working relationship between the 19 member companies, the PAD, and other government agencies provided the basic means under Plan of Action No. 1 for meeting the supply crisis. The friendly foreign nations both for civilian and military use had their essential requirements of petroleum products when, as, and where needed almost as they would have had had there been no net loss of 150,000 barrels of crude oil per day and 460,000 barrels of refined products per day with the shutdown of the Iranian oil fields and the Abadan refinery. Nor should sight be lost of the fact that the increase in consumption of products by the free nations of the world outside the United States at this time was approximately 320,000 B/D over the average for the preceding year. This accomplishment would not have been possible without the provisions for intercompany action written into the Voluntary Agreement and its Plan of Action No. 1, and the work of the member companies of the Foreign Petroleum Supply Committee within those provisions.

In May of 1952, it was thought probable that Plan of Action No. 1 could be terminated or at least suspended within the near future. The emergency created by the Iranian shutdown was fairly well in hand. On July 8 the Plan was actually terminated by the Secretary of the Interior in his capacity as Administrator of PAD.

The World-Wide critical conditions that existed when PAD was organized in late 1950 are still with us. The defense efforts of our nation and certain of the nations friendly to us continue. Supply of petroleum products is in delicate balance with free world requirements. The consumption of petroleum products both for civilian and military use is increasing at a greater than anticipated rate throughout the world. The present delicate balance will doubtless continue for two years or more. Critical emergencies may develop at any time.

In order that the present day to day operations as well as such emergencies might be met if, when, and as they occur, in order that our own nation and the friendly foreign nations might receive the petroleum products that are essential to their security, when and as they require them, it is necessary that there be a vehicle through which the required information and data can be gathered, assimilated, and tabulated in useful form for the guidance of PAD and the agencies associated with it in the defense program. It is further necessary that there be a vehicle in existence that will permit the prompt institution of other plans of action approved by proper authorities, should the need arise.

The Voluntary Agreement provides for both of these requirements. The continuance of information gathering activities under it, under the direction and observation of PAD is an essential part of the defense effort of our nation and of the friendly foreign nations. Under its provisions, the necessary action may be taken through the coordinated efforts of the American-owned foreign operating companies of the oil industry to meet such critical conditions that might arise. The cooperation of domestic companies of the oil industry and allied industries is likewise necessary.

Thank you.

MR. MAJEWSKI: I would like to ask Mr. Warren a question.

In regard to that report, if I were a member of PAD, I would see that the junior Senator from the State of Missouri got it so that he would understand what was being done about this question. I suggest that if you folks are not going to send it to him I would like to get my hands on it because I am going to write him a letter soon. I want to tell him what I heard here in Washington from a government agency of what goes on so that he stops making those scurrilous remarks that he has made that are unfounded allegations and charges. I never heard a better presentation from an old oil well driller on the subject. I suggest you do that with it.

MR. WARREN: We have framed this program presentation to you on PAD problems and activities. The first two men have talked to you about subjects and what the PAD's attitude has been toward those particular subjects. We are going to take up specific problems now. I want to ask Mr. C. E. Davis, who is the Assistant Deputy Administrator for Domestic Operations, and who has a responsibility of carrying out many pf the problems that PAD must take into hand, to say a few words. Mr. Davis has been with the PAD for several months. He is really one of our old-timers. I expect he will be here next March. I hope we can have him much longer.

I would like to ask Mr. Davis to outline these problems and then introduce the next three speakers.

I might say in preparing this program, we went over it very carefully in order to limit the amount of time consumed so that we could get the points over as briefly as possible and not take up your time.

CHAIRMAN HALLANAN: Gentlemen, it is quarter of one. Before getting into the next discussion, I would suggest that we now recess for one hour. There is a cafeteria available in the building. If there is no objection, the Council will now recess until 1.45.

(Whereupon, at 12.45 p.m., the meeting was recessed, to reconvene at 1.45 p.m., same day.)

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AFTERNOON SESSION

The meeting reconvened at 1:45 o'clock p.m., upon the expiration of the recess.

CHAIRMAN HELLANAN: The Council will please come to order.

MR. WARREN: Just before we adjourned I introduced C. E. Davis, Assistant Deputy Administrator in charge of foreign petroleum operation, and I want to turn this part of the meeting over to Mr. Davis.

(Applause)

REMARKS OF MR. C. E. DAVIS,
ASSISTANT DEPUTY ADMINISTRATOR,
DOMESTIC PETROLEUM OPERATION.

MR. DAVIS: Mr. Chairman, Mr. Warren, members of the Council, PADers, and guests:

I think that is the longest introduction I ever had, it started at 12:45 and ended up at about two o'clock.

I am going to talk briefly about some of the more important problems confronting PAD and then introduce several subjects whih we believe will be of considerable interest to the members of the Council.

The problems of greatest immediate concern in the domestic branch of PAD arise largely from the petroleum and steel strikes. We believe you will be interested in a brief review of these matters.

The steel strike representing a loss of approximately seventy-five days' production is causing a serious impact on the various programs of PAD. Although there has not yet been any noticeable curtailment of operations due to the lack of maintenance materials, it may be interesting to you to know that the petroleum and gas industries require over 173 thousand tons of steel products per quarter just to keep existing facilities in operation.

In regard to the drilling of oil wells, a seventy-five day loss in steel production before operations are fully restored would result in reduction of wells drilled by over nine thousand. This is equivalent to a loss to the crude oil productive capacity, worldwide, of approximately 370 thousand barrels per day.

In the field of refining, the oil strikes that occurred in May and June created some serious supply problems, particularly with respect to aviation gasoline and No. 2 heating oil, and now the steel strike threatens serious delays to the completion of the large expansion program.

Pipeline transportation is likewise facing serious delays in the completion of programmed facilities and the already short storage for petroleum products will be delayed in construction at least equivalent to the shutdown period in the steel strike.

It is estimated that the loss of steel to date will result in the loss in production of natural gas liquids production of nine hundred thousand barrels in 1952, and seven million barrels in 1953.

The effects of the petroleum and steel strikes on the supply position and construction programs are imposing added burdens on the limited staff of PAD which is now faced with a reduction in personnel caused by a reduction of twenty-two and one-half percent in our budget for the fiscal year 1953.

It will be our objective to meet the requirements of the reduced budget without sacrificing efficiency or effectiveness in our operqtions, but it will be necessary for us to have full cooperation from all segments of the industry and continued forebearance with us in our problems.

The outlook for heating oil supply and demand on the East Coast arising partly from the recent strikes and partly from the disproportionate increase in demand for that product requires fullest cooperation between the industry and PAD if serious shortages in certain areas are to be avoided next winter. Serious interruptions in the flow of heating oil from Gulf to East Coast occurred during the last heating oil season, as a result of abnormally high transportation rates and a distortion in price ceilings between those areas.

Price adjustments were made last month well in advance of the next heating oil season in order to facilitate maximum production and movement of these products.

With the substantial removal of this price barrier, it will be up to industry to make sure that sufficient heating oils are made available to avoid shortages next winter. Representatives of PAD held conferences with refiner-suppliers in the Gulf Coast area last week and will hold similar conferences with refiner-suppliers in the East Coast area this week to outline our forecast of the supply and demand position and to discuss the program of each company with them individually.

I would like to introduce Mr. Charles J. Hedlund, Director of our Program Division, who will present the high spots of our appraisal of this forward position in No. 2 fuel oil.

REMARKS OF CHARLES J. HEDLUND, DIRECTOR, PROGRAM DIVISION ON THE EAST COAST HEATING OIL PROBLEM.

MR. HEDLUND: Thank you, Mr. Davis.

Mr. Chairman, members of the National Petroleum Council, and guests: I was thinking last evening about presenting this topic to this distinguished group and I wondered how I could interest anybody in the heating oil problem with the thermometer standing at ninety-eight degrees.

But this problem is one of those like the proverbial leaky roof, you have to fix it up when it isn't raining and we have to get busy now and prepare for this heating season that is coming up next year.

Each year, for the past three years, there has been concern in the industry about the adequacy of heating oil supply for the coming winter. In each of these years, warmer than normal weather along the Eastern Seaboard has eased the winter supply problem. But we cannot count on a continuation of such good fortune.

Studies made by the PAD staff indicate that distillate production on the Gulf and East Coasts must be maintained for the next nine months at a level eighteen percent above last year's production, to meet the requirements of a normally cold winter. To do this the industry must maintain record crude runs and record distillate yields.

I have some charts here which Illustrate the supply side of this picture, but before turning to those I would like to make a few comments on the demand for heating oil and other middle distillate products.

The continued popularity of oil for home heating is, of course, one of the reasons why we have a winter supply problem. I don't know how many of us realize that there are more than twice as many home oil burners in use than there were just after the end of World War II. This means not only a much higher level of demand, but a sharply increased seasonality of demand.

Our estimates of heating oil consumption are based on the assumption that oil burner sales for the year will be about the same as last year. This would mean an increase of about eight percent in the number of oil burners in use.

In addition to the ever increasing burner population we must provice for the increased consumption of existing burners that would come with normally cold weather. The last two winters on the East Coast have averaged nearly ten percent warmer than normal, as measured by degree days. With normal weather on the East Coast next winter, heating oil consumption would increase about ten percent without the installation of any new burners.

Overall, the heating oil requirements for new and existing burners on the United States East Coast are estimated to be up about seventeen percent next winter.

Sharp gains in diesel fuel consumption also compete for the limited distillate production of our refineries. Military diesel requirements are increasing and contribute to the tight supply picture. Jet requirements are up as our friends from the military have told us this morning, and these contribute to the tight supply picture.

For all of these reasons which I have cited a record level of distillate consumption is expected in Districts I and III (Gulf and East Coast) this winter, perhaps sixteen to seventeen percent above last year.

One of the reasons that the industry has such a big supply job before it this winter is, as we all know, the fact that the recent refinery strikes interfered with the normal off season buildup of distillate stocks. Although industry operations have snapped back to record levels since the strikes were settled, and we are rebuilding our distillate stock, but we must improve even the current performance.

I would like to outline our estimates of the supply situation in the vital Gulf and East Coast areas, with the help of some charts, and describe the supply situation in the vital Gulf and East Coast areas.

I wish these were a little larger so that yu could see them better, but if they had been bigger I don't know whether we would have gotten them through the door, or not.

This chart on the left shows the level of distillate demand in the past two winters and the forthcoming winter as estimated. It is divided into three sections, the top section, the red part, indicates the proportion of demand which is ordinarily supplied by draft out of storage. In other words, that is the stockpile we build up during the summer.

The rest of the oil must be produced currently during the winter. The yellow is from District 1 and the green from District III. The estimated demand for the coming winter, this number here is over eighteen million barrels, 1,130,000 barrels per day, which is a sixteen to seventeen percent increase over the nine seventy-one average for last winter.

Notice that even with a program of summer stockpiling we must still produce over eighty percent of our winter heating oil requirements currently during the winter period.

The second chart takes this production of distillate and analyzes it just a little further. It shows for the three quarters, for the third quarter of 1952, the fourth quarter, and the first quarter, it shows our estimate of required distillate production as compared to the production in the late period of last year.

In the third quarter we feel that the industry ought to be producing about nine hundred eight thousand barrels per day of distillate in order to meet these requirements. Actually for the past four weeks the industry has been averaging about eight hundred forty thousand barrels.

This is a good performance this early in the third quarter, but we must do better than that. Overall for the next nine months here it will be necessary, we feel, to increase distillate production by eighteen percent to take care of the requirements of a normal winter.

This other chart shows the required refinery runs as compared with refining capacity. The top line, the blue line, indicates the capacity while the red line indicates the past run and the estimated run for the next nine months.

With the exception of this period here when we had these strikes I referred to a minute ago, you will notice we have been running very close to capacity ever since Korea here in the middle of 1950.

It looks to us as though that type of operation will be required this winter again. These figures which some of you probably can't see show the relation of winter runs, average runs over the winter, to refinery capacity figures and they show that the maximum the industry has ever attained is a figure of about ninety-six percent of the so-called capacity which was back in 1950 and in this period here we averaged ninety-six percent of capacity.

Previously we had ninety-five percent, and have been down as low as eighty-eight percent during this period. We feel with this picture, this history, that about the best we can figure on is ninety-six percent of the nominal capacity of our refineries during the winter and we have based our program on this figure. It would mean crude runs from Districts I and III of three hundred eighty-six thousand barrels per day during the coming winter, which would be about three hundred thousand barrels per day more than we ran last winter to reach and maintain this level of crude runs this winter, which will certainly require all-out operation and possibly a little good luck besides.

There is no room in this picture for supply interruption. In addition to high level of crude runs we must maintain record distillate yields. Our estimates have been based upon maintaining an average yield of twenty-five percent of distillate in Districts I and III over the winter months, and this is one percentage point higher than the best we have ever done before.

During the first quarter of last year we averaged twenty-four percent.

If supply and demand should follow the course which we have outlined here distillate stocks would follow generally the pattern of the past two years. We would, as an industry, build up distillate stocks by the end of the third quarter to a sixty million barrels in Districts I and III, which would be just slightly higher than last year, but in spite of the record production by the end of the winter those stocks would be drafted to a point lower than last year.

This is not a really ample stock picture. We would rega rd it as a minimum stock picture for the reason that there is some question about being able to supply some seventeen percent higher demand out of the same level of stock. Our discussion has centered around refining operations. The reason for this is that we think refining is probably the key to the puzzle this year. It appears likely that crude oil will be available to cover the level of refining operations forecast in our studies, at least available at the wells.

The transportation outlook is not quite as clear. It will probably be necessary to complete at least one of the crude lines out of West Texas in order to assure adequate supply of crude oil to meet the refining picture.

Tankers will be a problem in the winter months, as they hae been in recent years, but it may be that tankers will not be quite as tight as last year.

This is the East Coast heating oil problem, gentlemen. It is a picture wherein we feel that a production increase of eighteen percent will only maintain a bare minimum stock. Usually our industry has some flexibility, but it seems likely that this winter we may have no upward flexibility on runs, none on yields, and none on stock.

We are not crying out in alarm about an oil shortage this winter, but we do feel it is up to each refiner in this critical East Coast and Gulf Coast area to exert all possible effort to maximize distillate production and up to every jobber and marketer to buy early and fill up his storage.

Only prompt and decisive action by the industry in these two directions will assure the coverage of the peak heating oil requirements of the coming winter on the East Coast.

MR. MAJEWSKI: You talk about Districts I and III, I think the area of shortage that is most likely to occur is District No. II, particularly from the district angle and there we have an oversupply of one product and no place for it to go.

It seems like there ought to be some thinking done now on how to get rid of those heavy residuals out of District II so that we can maintain our crude runs and produce the necessary heating oil distillates that we will need in District No. II. I am afraid that you will find them hollering longer and louder than the Congressmen in New England this winter because you are hitting it right on the head today. People are cutting back crude runs in District II because they have no place to go with heavy fuel oil and I am amazed to hear that the government is looking for special Navy fuel, I mean temporarily. They weren't because of the steel mills being down, but they are now looking for heavy fuel oil.

Gosh, we have it and I am wondering if you all know we have it.

MR. DAVIS: I am sure the answer to that is yes. It is very difficult in presenting information to a group as broadly representative of all sections of the petroleum industry as this Council to not deal with specific problems of direct and specific effect to only a relatively few members of the Council.

To answer your questions specifically we have not considered District No. II as being unlikely to have problems this winter except in so far as we can determine at this time.

We have been dealing with the East Coast problem on the question of barriers of one kind and another for nearly a year. It was presented to you gentlemen with the idea of telling you where we stand with respect to it now.

District II has, in so far as we can determine, a potential problem, but at this stage it does not appear to be a real problem. The residual that you mention has been a perennial thing since PAD was organized, almost. It was accentuated in the last two months considerably by the steel strike and with the steel mills back in operation it should show some improvement over the next few months and may answer part of the problem that is concerning you, Mr. Majewski.

Likewise the California situation is certainly critical as you heard this morning on military supplies, as well as division supplies. They look for shortages on all products in California.

MR. MAJEWSKI: I think you have done a grand job in Districts I and III, don't get me wrong, but the thing that solves the problem in Districts I and III was when you cracked the bottleneck at OPS. That is what solved it there, the economics.

I am pointing my finger at that District II over supply of heavy fuel oil which is economics . I volunteer this guess, that unless that is solved to relieve shortages elsewhere in the United States with heavy fuel oil or potential shortages that we are going to be short of heating oil in District No. II to keep people comfortable and warm and m chance of importation in the Middle West, you know, because we have to depend on our own sources.

I am not finding any fault with what you have done so well in Districts I and III, but you cracked an economic barricade at OPS and that is what is confronting you here.

MR. DAVIS: We are aware that these problems exist, but thus far we have no solution to the one that you refer to specifically and there does not appear to be an immediate likelihood of anything being done in regard to that one.

MR. MAJEWSKI: Of course I am in a heck of a position, I am only a jobber. I am arguing the case for the refiner in District No. II.

It would seem to me that some of the refiners ought to speak up.

MR. SPENCER: Mr. Davis, if I may, I am not entirely satisfied with Districts I and III on this question of residuals. Your objective is increased runs of three hundred thousand barrels a day, I take it, in Districts I and III.

If we are lucky you might contain the extra residual production down to fifty or sixty thousand barrels a day.

What is the thinking about PAD about finding a market for fifty to sixty thousand barrels a day of extra residual in Districts I and III?

MR. DAVIS: I don't know whether this will answer your question, Mr. Spencer, but there are two things that happened, one, of course, being that the steel strike has backed up supplies in Districts I and III substantially.

In addition to that, of the three hundred thousand barrels that you refer to that is over and above the level of a year ago and not over and above what we are now doing, so that most of it has already been taken into the production picture as an increased through-put, about two-thirds of it.

The remainder is about one hundred thousand barrels that is to be added to the present level of through-put to meet these requirements. That doesn't pose a particularly serious problem on residual, so far as we have been able to determine provided relief is gained from the steel operation which takes away the surplus that we had.

All last year we had a shortage, as you know. It is only in the last two months that this surplus began to be troublesome in the Coastal areas.

MR. RUSSELL BROWN: Mr. Davis, from what I have gained from talking to the refiners and operators, a good lot of these bottlenecks are coming from the economic conditions in the various areas. I talked to the government agency and they say they haven't heard from you people about that.

Did it occur to you to talk to them about that?

MR. DAVIS: We have not made a recommendation concerning price controls except in those areas where it seemed to present a prevention of the movement of necessary supplies to consumption.

Now, if you have a bottleneck that prevents movement o f supplies, that alone hasn't been sufficient for PAD to make recommendation on it, but if it interferes with the availability of supplies at the point of consumption and the distribution of it, then we would not hesitate to recommend that that was a factor which was preventing the movement of supplies.

MR. RUSSELL BROWN: But that is patchwork. You put your finger here and it breaks out in another place. I was wondering if we couldn't find ourselves in accord sufficiently to go over and sit down with OPS and say that this whole thing is unnecessary, it is an economic monstrosity and it is affecting the natural movement of our products.

MR. DAVIS: I am afraid it is not affecting the responsibility of PAD in the petroleum supply picture. It is true that you can argue it for a particular product or a particular location, but we don't regard it as a responsibility of PAD except in so far as price represents a detriment to an essential supply for civilian and military use.

There are other agencies to deal with that.

MR. RUSSELL BROWN: You have dealt with this one, but it is popping out in another place and when you cure that it will pop out in another.

MR. TOLLETT: Mr. Davis, how far along have we progressed in our divergence of the maximum demand to supply in oil? Do you suppose the present demand can be increased by fifty percent?

MR. DAVIS: We have moved up about twice the rate on heating oils that we have on other products.

MR. TOLLETT: It seems to be a great part of the function of PAD to help the sellers of the burners. At some time we ought to define the limit of the domestic industry to supply all of these burners. If not, we are going to be short every year.

MR. HEDLUND: There is still a big market for oil burners. However, in long-range studies I have made, and I have seen, it looks as though the demand may level out.

One reason is the increasing competition of natural gas in the home heating market. Another one of the drawing factors in the distillate field is diesel fuel, particularly railroad fuel. It has been growing twenty or twenty-five percent a year.

As a matter of fact, in three years the railroads will be completely dieselized.

If at the completion of this defense program there is a possible decline in business activity, that would have an effect.

As a result of those three factors I feel that the very high rate of gain necessary in the distillate products will level off in another two or three years.

MR. TOLLETT: You think the industry can supply the household heating grades, the conceivable demand, if everyone gets an oil burner?

MR. HEDLUND: Yes, sir. I think they always have and I think they will.

MR. TOLLETT: At present price levels?

MR. HEDLUND: No, I don't say at present price levels.

MR. DAVIS: It's the first time I ever heard an oil man proposing limits on consumption.

MR. MAJEWSKI: I think you misunderstand him. He was suggesting that if you are going to continue to control the price of petroleum products, maybe you ought to control the end use of oil instead of the price. That is what I understood him to say. Here is what would happen if you said you couldn't have any more oil burners. Someone would have to get more for gasoline and then we would have a lot of trouble.

No, I think this is a balanced program, but, frankly, Mr. Davis, if you would go to OPS now and remove all price controls we will take care of ourselves on our No. II, we don't ask you to peddle it. Here's the vagary of the situation:

Oil is selling for eighty-five cents a barrell in group 2, and no takers, and the price of crude oil is $2.65 for the high gravity in District II.

Now, I am suggesting to you that there are places where they don't have fuel oil. I understand in Ohio that they are drawing on this last storage. I want you to hear the gossip. It isn't quite true, but what you do is if you take two cent oil you can move it into Pennsylvania at the prices which you are selling now.

All we are asking you to do is to help us bring back this industry into the same economic position of freedom that we enjoyed and we won't ask you to maintain prices for us. We will take care of the public and give the gas companies hell.

MR. VANDEVEER: Due to my extreme modesty, I hesitated to get up here, but when Barney said it wasn't quite true, that is when I make a point of order.

I think it would be interesting for PAW if we knew, or if PAW knew, how much storage of residual fuel is still open as residual storage fuel in District II. I know that some of the refiners, and I am not a refiner any more and haven't anything to do with it, I know that some of the refiners in District II, every available storage tank is full, residual storage, that is, earmarked for residual storage.

Now sure, the steel mills have started to operate, but there will be sufficient production there in District II to supply that demand of the steel industry and still we are going into the winter with all of our residual storage full which normally has gone down and we used it for No. 2 or what-not.

I think District II's storage situation is a bottleneck to the entire problem in District II. One refinery for instance had so many days of storage, as a matter of fact, seventy-five days of open storage for residual fuel.

Today they have twelve days, or last week it was twelve days, of open storage. Now they have a balance of about twelve days assuming they move it out as fast as they move it in. That storage shouldn't be tied up for residual fuel.

MR. MAJEWSKI: How about OPS?

MR. DAVIS: I thought I made it clear in regard to the general question of price control for which we do not and are not responsible to exercise authority. We have in cases where supplies are running short made recommendations in that field, but only in those cases.

MR. MAJEWSKI: I hope that by the next time we need the administration of the PAD will ask the Agenda Committee to study the subject of removal of price controls from petroleum product. I mean, I will give you ninety days in which to do a lot of thinking, but unless you do it, frankly, we are going to have problems and as Russell so aptly puts it, you can't cure a pimple here without a bump on what you are sitting on, and that is painful when you are sitting on a bump.

This is not being critical; you are our friends, on our team. What I am trying to say is that you have to dispel a fallacy that price controls are helpful any longer in the oil industry. They are passe. You don't have anything to fear, my friends in PDA, from inflation, due to runaway oil prices.

The problem is going to be to put some ceilings on the thing -- I mean floors under the thing -- and I am told that is a little illegal. I don't know, I don't know much about law. You can't do this, but you can do this. So, I urge you through the proper people in your very efficient PDA to put this on the agenda. I am sure we could come up with some good answers for you.

MR. DAVIS: Very good.

MR. BLAUSTEIN: As a matter of fact, thus far the decontrols have been only on products where the prices have been below the prices set; isn't that true?

MR. MAJEWSKI: In other words, while I am in sympathy with removing price controls, I understand that they are not removing controls except where the price is below the control price. That is the basis on which they are decontrolling some product prices.

MR. DAVIS: One point I would like to make, Barney, have you taken your problem to OPS? Remember, we are delegated certain powers and they are delegated certain powers. Anything we make is in the way of a recommendation to them.

You yourself can go to OPS and probably get just as much recognition as PAD can regarding these problems. What I am driving at, I think you are taking this problem to the wrong agency; it is a place that we haven't any authority and we have only gone in as you brought out, Mr. Blaustein, when there was dislocation that was so pronounced and inequitable that it caused shortages.

MR. MAJEWSKI: I brought it up here because I was over there and they said to me that unless there is a certification from the agency charged with the supply, and that is PAD, as I understand it, or intervention, on their part they wouldn't even consider it.

We are just like foreigners over there unless you do something about it. That is frankly what I mean. They will give a better reception to Joe Stalin than they will to an American in the good old American way. There is no reflection on those people intended.

(Laughter)

MR. MAJEWSKI: They just want to keep their jobs. Over here you want to get rid of your jobs, the work you are doing for the government and the people, and they want to keep their jobs.

With a situation like that we are in a hell of a mess.

MR. RUSSELL BROWN: I have been over there and almost everytime I go there they say, "We have no complaint from the supply people."

I think there is, if you take a look at your responsibility, I think you have a supply that might be seriously affected by the very thing you are talking about. I hope you will reconsider it.

MR. BRUCE BROWN: Is there any change in refining technique that might be helpful to the district people?

MR. MAJEWSKI: We didn't ask that.

MR. DAVIS: There are some well known techniques, Mr. Brown, that haven't been explored as fully as they might be.

MR. BRUCE BROWN: For example?

MR. DAVIS: Decoking.

MR. BRUCE BROWN: Would that provide more heating oil, Mr. Davis?

MR. DAVIS: Yes.

MR. BRUCE BROWN: Do you authorize cokers when people come in and want to build them?

MR. DAVIS: Oh, yes. We have not rejected them.

MR. SPENCER: How long does it take to build a coker?

MR. DAVIS: Not before the winter of 1954.

MR. MAJEWSKI: A temporary stimulus.

MR. DAVIS: The shortage of aviation gasoline is always with us. In order that you may understand the outlook, I will give you our best estimate for the requirements of aviation fuels for reciprocating engines over the next few years.

Colonel W. J. Worcester, Aviation Officer, on loan to PAD from the Military Service, the U. S. Air Force assigned to PAD, will present our appraisal and forecast of the long-range aviation gasoline picture to you.

CHEIAMRN HELLANAN: Colonel Worcester.

AVIATION GASOLINE SUPPLY BY COLONEL
W. J. WORCESTER, AVIATION OFFICER,
PETROLEUM ADMINISTRATION FOR DEFENSE.

COLONEL WORCESTER: I have been assigned to PAD for almost seven months and nearly everyday someone accuses me of having a military mind. The reason I suppose is rather obvious.

On the other hand, when they go to the Pentagon and talk to Colonel Johnson, they are normally accused of having a civilian mind.

So between a military mind and a civilian mind, I am confused. When I say there is a shortage of aviation gasoline let me tell you that that is said with a minimum of confusion.

This subject of aviation gasoline has been discussed for years, and there just never has been enough of it in the past except for a few years after the last war. The present and future appear to be the same as the past -- there is not enough now, and it is questionable at this time whether there will be enough in the future.

I believe it was in the days of PAW when the avgas situation was described by saying that: "You never have enough avgas, but when you do you have too much."

Now all of you know what gasoline is, and I'm certain that most, if not all of you, know what aviation gasoline is. However, just to be certain that we all are talking about the same thing, I'll briefly describe avgas.

Aviation gasoline, unlike motor gasoline, is not really gasoline in the usual sense of the word, but is a mixture largely composed of a synthetic material. First, there is alkylate used to give volume and meet the one hundred octane number.

Now alkylate is vital to all high octane avgas -- just like alcohol to whisky. I am sure a couple of you know about whiskey. Actually, alkylate is a synthetic iso-octane which has a high octane number blending value; second, there are several special blending agents such as iso-pentane, and toluene and other aromatics, used to meet the vapor pressure and 130 octane number requirements; third, there is base stock which is essentially a very high grade motor gasoline used to give volume.

We put all these ingredients together, then add some miscellaneous things like a storage stabilizer, dye, and TEL, and we have avgas. Actually, we have what might be called three types of avgas:

1. Third grade gasoline, or those having a rating of less than one hundred octane.

2. Housebrand or regular gasoline, that known as grade 100/130, and

3. Premium gasoline, that known as grade 115/145.

Of course, the higher the grade the more alkylate is required to make it -- for example, grade 115-145 requires almost fifty percent more alkylate than 100/130.

Currently there is a very serious shortage of aviation gasoline and particularly of military grade 115/145 avgas. Our estimates show a shortage in military deliveries this month and next which approximates thirty-eight thousand B/D of grade 115/145, and fifteen thousand B/D of grade 100/130.

Now, gentlemen, this shortage is serious and is not one which will disappear over the next few months. Our estimates show an average shortage over the current six months, July through December, approaching twenty thousand B/D assuming continuation of the present productive effort.

This month and next month it appears that our estimate of production is too high.

To go further in the future, any quantity of military requirements under contract which are not delivered during the current fiscal period must be delivered in a future fiscal period.

Second, recent information from the Air Transport Association and the CAA indicate that commercial requirements will rise, over the next year or so, much faster than previously anticipated.

As a result, avgas, and particularly grade 115/145, will be short, on the average, over the entire next twelve months as we currently see the situation.

Now to go a little further into the future, we have this chart over here. I might say to start with that these estimates are for peacetime, not wartime, for a continuation of current international and national situation.

MR. WILSON: You say they are a continuation of the current international situation?

COLONEL WORCESTER: That is right, peacetime, whatever you want to call it. There are total requirements, civilian, military, domestic, and export, and it is a total for all grades of gasoline.

Our chart goes up to 1960. We quit there because our crystal ball got so cloudy that we couldn't see much after that.

Here is 1952. Requirement amounts to two hundred twenty thousand barrels a day, and that is an average for the year.

It might be interesting to know that theincrease to 1950 was one hundred twenty-seven thousand became in 1952 it was one hundred eighty-two thousand. This is for calendar years.

We expect this requirement to rise continuously up to sometime around 1959 or 1960. As I say, our crystal ball gets cloudy around here, but there it shows around two hundred thirty-six thousand barrels.

I would like to point out that in 1952 only about thirty percent, or roughly seventy thousand barrels a day of that two hundred twenty-two thousand barrels a day is grade 115/145 but when we get out to 1959 almost fifty percent of that almost two hundred forty thousand or one hundred twenty thousand barrels a day is grade 115/145.

So we expect total requirements on U. S. production to rise to 1959.

To break this down a little bit, we think military requiements for high octane gasses will rise until sometime in 1957 when the jet fuel requirements will begin to cause a decrease in the military avgas demand. We look for commercial demand to rise until sometime in 1959 and putting them both together we expect the peak demand to occur in 1959. In other words, we expect a number of years to pass before the rise in avgas demand ceases and that is in spite of all the talk about jet aircraft, about atomic energy, or rockets or about anything else you can think of.

In short, we have a large demand, not entirely filled today, and tomorrow we expect a larger demand.

Now, that is the peacetime picture. The wartime picture is not much different and can be summed up in one word, briefly, "shortage". War requirements, of course, have a very high security classification and we can't go into them in detail. However, a few things can be said.

First, it will be several years before the demand for jet fuel which of itself would be up in six figures on a barrels-per-day basis, will cause a decrease in aviation gasoline wartime requirements.

Second, the proportion of grade 115/145 to grade 100/130 continues to increase, and third, the amount of alkylate capacity needed will be much greater than that used in the last war.

Now, gentlemen, you have the requirements picture, let us look at the future production potential. Today, as noted earlier, there is a shortage of avgas. There is, moreover, a shortage pf economic alkylate capacity -- defined here as that capacity resulting in normal priced avgas.

While we have "on paper" sufficient total capacity to meet present and future peacetime requirements, we have been unable to find customers who will buy avgas regardless of cost, and we are now having difficulty ferreting out additional high cost production. As a result of the cost angle, we have almost thirty thousand B/D of alkylate capacity which is idle partly because the cost of the alkylate or the finished avgas is so high, and perhaps to an equal extent due to a loss in effective capacity when manufacturing increasing quantities of high qualify alkylate for grade 115/145.

A dditionally, we have production from thirty-five thousand BD of alkylate capacity resulting in above normal cost aviation gasoline.

Thus we can say that a very great proportion of existing alkylate capacity is usually uneconomical. This fact, coupled with that of a demand rising continuously for several years in the future, would indicate that there is considerable room for expansion where such expansion will resule in normal cost avgas.

Expansion is taking place. PAD has an immediate target which will expand alkylate capacity by almost fifty percent over the next two years. Even if the target is completely fulfilled, such expansion will not be enough to meet peak wartime requirements and some peacetime requirements will still be produced at higher than mormal market prices.

You gentlemen are the petroleum industry. We need additional alkylate capacity for the future. We need additional avgas production today, and we need this additional avgas production even if it pinches you in your commercial operations. The solution to our avgas problems is in your capable hands.

MR. DAVIS: Thank you, Colonel Worcester.

Following Colonel Brown's remarks this morning, Dr. Wilson asked a question about marginal aviation gasoline production and no one commented on it at that time. It has been referred to by Colonel Worcester in his remarks and I wonder if there is any further question?

MR. WILSON: Mr. Chairman, Colonel Worcester said the problem is in our hands. As long as there is thirty-five thousand barrels of capacity that is not being used, it is pretty had to get people to put new money into new facilities which they are then going to be told is uneconomic. There is a lot of capacity that could be used if this shortage is as bad as he says. I am sure the industry is going to cooperate in that. I know there are plants that have alkylate capacity and didn't get into operation simply because their freight rates were so high.

If the military wants the industry to step up alkylate capacity, they had better make more effective use than they have and it isn't that anybody wants any abnormal profit on this; it is simply that you have to get the base rate and then you have to get the freight rate to where the military wants it.

MR. DAVIS: I am glad you expanded on that, Dr. Wilson, because I think it is important that when we talk about marginal production we define a little more clearly what it means.

The military has been buying marginal aviation gasoline since the start of Korea and that means it is the cost of avgas produced by uneconomic methods, and ~~T~~he question now is whether or not there is justification pricewise and economic-wise for the military to buy gasoline based on retreating of catalytic base stocks, the shipping of butanes from the eastern part of the country to California at terrific freight rates, all of which is the cause of very, very high cost avgas.

He stated that It is in that area of marginal cost production that we perhaps should be thinking and look rather than at marginal production which has been bought on the basis of excess cost for eighteen months or two years from now.

During the last world war cost was of no concern in the production of total aviation gasoline. Plants were operated at a fraction of their capacity, catalytic cracking units, in order to make base stocks for aviation gasoline.

Mr. Davis said that

Under our present system it just isn't practical to do that and consequently neither the military nor PAD has felt that we were in a situation where we could justify those complete disruptions in operations and increases in cost of production that would be necessary to obtain that very high cost marginal production.

MR. WILSON: But it must be recognized that with the new alkylate plants it would be uneconomic because where you have a good location they have already been built. Today if you build an alkylate plant it will cost you fifty percent more and you will have to build it either where the size or the raw material is not as good as that which we have already. That is the reason the industry hasn't shown interest in coming in, because they know it will be marginal.

MR. DAVIS: I think Colonel Worcester was endeavoring to show that new capacity as such would produce cheaper avgas than the marginal avgas that we are talking about so that on the long range it would offer more advantage with possibilities of operation than the marginal operation would. I think that is all he meant by the term increased capacity.

If you increased basic capacity, it would increase avgas.

MR. WILSON: No, it won't, because, in the first place, you have plants that are largely depreciated that cost only two-thirds of what new plants would. The mere fact that you build a new plant you will have to build it in general in a place where the size of the plant which you build is small because most of the large refineries already have the location.

You will have a higher cost, you will have an undepreciated plant, you will have a plant that will perhaps be out of business before its useful life is exhausted. I think you have few places where you can build an alkylation plant without the cost being very high, at least that is our finding.

MR. DAVIS: It will vary, of course, with each location, but basically, you can still spend today's capital and produce alkylate at a cost that is within a small range of what we call normal cost avgas, not this astronomical high cost avgas.

Any other questions or discussion?

CHAIRMAN HELLANAN: Any other question from Mr. Davis?

MR. DAVIS: The next section really deals with the same subject. We have had for some time a contract mechanism developed in government under the administration of ASPPA for the contracting of alkylation construction, the building of new alkylation facilities.

In addition to providing certificates of accelerated tax amortization to cover ninety percent of capital investments, we have had available for some time for use by industry for the construction of new facilities and the rehabilitation of old facilities, a contractual procedure whereby alkylation facilities can be constructed under contract with government.

Since there has been some misunderstanding on the part of industry representatives concerning the terms and application of such contracts, I will ask Howard S. Spering, Special Assistant to the Director of the Refining Division, PAD, to explain briefly the principal elements of such contracts.

ALKYLATION FACILITIES CONTRACTS BY
HOWARD S. SPERING, SPECIAL ASSISTANT
TO THE DIRECTOR, REFINING DIVISION.

MR. SPERING: Members of the Council, early in 1951 PAD's efforts to interest companies in building or rehabilitating alkylation plants ran into industry protests that they could not justify investing their money in alkylation plants becase of the lack of any assurance of being able to recover the investment. Long term supply contracts of three to five years were not possible under the one-year appropriations practices of Congress for purchases of consumable supplies, and representatives of the Defense Department were convinced that they could not induce Congress to alter this practice for purchases of avgas or alkylate. Appropriations for industrial plant construction, on the other hand, could be obtained for expenditure over a number of years.

So that was obviously the route we had to go. We thought about the idea of a defense plant, but no one in the Defense Department or in PAD was in favor of government building or owning alkylation plants at this time.

Nevertheless, if we do not get the capacity that we must have, it appears that that will probably be the only other alternative.

It was clear that the new alkylation plants must be built at refinery sites where the gaseous feed stocks will be available.

Through discussions with a number of refining companies, representatives of the Defense Department, and PAD endeavored to determine what sort of contract would meet the requirements for private investment in the construction of privately owned alkylation plants. The result of these discussions, and considerable midnight oil and conferences, is the Alkylation Facilities Contract.

The basic plan of the Facilities Contract was presented to Congress by the Defense Department and PAD with a request for funds to be committed under such contracts. Congress granted to the Defense Department the eighty-five million dollars requested for this purpose, and this amount has been set aside to cover the total liabilities of government under such contracts.

The details of the contract were developed by the Defense Department and PAD and approved by the Honorable Charles E. Wilson, as Director of the Office of Defense Mobilization. These refining companies have already executed facilities contracts with the Armed Services Petroleum Purchasing Agency, one just last week. Other companies are negotiating facilities contracts, and some are well advanced.

The facilities contract is, in effect, an insurance contract to protect the refiner against failure to recover his investment either because of non-use during part of the five-year term of the contract or because of lack of usefulness thereafter. The plant is at all times the exclusive property of the refiner. No avgas or alkylate is purchased under the facilities contract.

A separate supply contract, charged against a separate annualappropriation for purchases of required supplies, cofers such purchases. All that government receives under the facilities contract is the right to purchase the product at a negotiated price during each or any half calendar year, and the assurance that the plant will be kept in standby condition ready for operation whenever it is not being operated.

Broadly, the facilities contract provides that the:

> Company shall build an alkylation plant at its expense and the new investment cost is determined by audit.
>
> Government has option to purchase product during each or any half calendar year. ASPPA has adopted firm

policy that it will buy product for at least one full year after completion.

Company can operate plant for its own account during any period government does not purchase product, and no accounting to government for such operation is required.

If neither government nor the company desires to operate the plant during any period -- by the way, that is apt to be misleading. The government never operates the plant, the company does, and it sells the product on a negotiated price basis. It is not any cost plus operation such as we knew in the last war.

If neither government nor the company desires to operate the plant during any period, the company must place plant in standby condition and maintain it, with reimbursement from government for all such expenses. In addition, during standby government pays company real estate taxes and insurance on the plant, normal depreciation at ten percent per annum and interest at 2.4 percent per annum on the new investment. This represents four percent per annum on the declining balance amortized over five years.

Price to government of product shall be negotiated for each period uponbasis of past operating costs and experience with reasonable allowances for normal plant depreciation, profit and overhead, all upon applying accepted refinery engineering standards.

Government has right to terminate facilities contract on twenty to forty days' notice depending on whether plant is in operation or standby at the time.

After termination or expiration of contract government shall make a termination payment to the company in the amount determined under either of two alternate formulae. One formula applies where the company declares after termination that it will not thereafter operate the plant for alkylation.
The other formula applies where the company declares that it will operate the plant for alkylation. The formulae are designed to determine the unrecovered and unrealizable portion of the new investment cost. The resulting termination payment therefore constitutes a payment of unamortized investment cost, which is certifiable as a deduction for income tax purposes in accordance with paragraph (g) of section 124A of the Internal Revenue Code up to the amount of the depreciated or amortized book value of the plant at the time the payment is received.

Under each of the formulae, the value of the plant at termination is determined by mutual agreement after an independent engineering appraisal by a mutually acceptable concern, and normal depreciation at ten percent per annum from completion of the plant to termination is computed. These two items obviously must enter into a determination of the termination payment, whether the plant will be operat d after termination for alkylation or not.

If it will be operated the value of the plant is its going use value to the company. If it will not be operated, the value is its residual value to the company for any other use, which might be scrap value.

In developing the overall economics of the facilities contract, it was also necessary to develop some basic principles of allowances for depreciation, interest, profit, management and contingency in theprices to apply in the government supply contracts for purchases of avgas or alkylate produced from any alkylation plant build under a facilities contract.

We did this from the "pay-out" approach -- so familiar to the oil industry. Since the facilities contract eliminates the risk of capital by underwriting the recovery of it, "pay-out" in this case is significant primarily as a measure of potential profits after taxes. Moreover, where the price to be paid by government for the product is negotiated on the basis of the refiner's costs plus reasonable allowances for profit and overhead, the uncertainties of actual profits to be earned are leargely eliminated.

The ASPPA and PAD have agreed on the allowances for normal depreciation, interest, and profit, management and contingencies to be made in negotiated prices of avgas or alkylate derived from plants built under facilities contracts. With accelerated amortization taken, the pay-out period is 4.3 years, in so far as return of investment is concerned.

Using a normal depreciation rate of ten percent per annum the profit to be earned after taxes and interest on the investment is expected to be 8.5 percent per operating year. That figure, of course, before taxes, is better than sixteen percent. That is on the original investment straight through the life of this contract.

The termination formulae allow the refiner to keep from 5.2 percent to 8.5 percent per operating year as profit after taxes, and, in addition, assure the refiner he will recover in dollars and residual value of the plant one hundred percent of his new investment plus interest at the rate previously mentioned.

It should be pointed out that the facilities contract does not guarantee these profits and it should not. The eighty-five million dollars appropriated for these facilities contracts is to insure a normal rate of return of investment during standby and ultimate recovery of the investment. The facilities contract does just this, but allows interest to be earned on the investment and a fair profit after taxes to be retained as such per operating year.

In conclusion, I should like to leave with you two pictures, one of the facilities contract, and the other of the supply contract. As presented, they supplement each other and are additive. First, the facilities contract:

> If a refiner invests money in an alkylation plant under the facilities contract and does not operate the plant at all during the life of that contract, it will recover its money at the rate of fifteen percent to 17.5 percent per year and the investment will earn interest on the unrecovered balance equivalent to 3.75 percent per annum.
>
> At termination, the refiner will receive the balance of the investment in cash and residual value of the plant. This is a binding obligation of the U. S. Government with an eighty-five million dollar appropriation set aside to back it up. This is much better than money a company might put into U. S. Government bonds at 1.75 percent interest.

Can a company afford it, on this the least attractive case offered by government, to add to our national security in event of all-out war, and keep government out of the refining business?

The second picture is the supply contract supplementing and added to the first picture.

Here the company will likely earn frOm 5.2 percent to 8.5 percent per year of operation as profit after taxes.

Again I want to emphasize that that is after taxes.

This profit is after recovering all other costs, such as real estate taxes and property insurance and the alternate use value to the company, or the purchase cost, of the petroleum raw materials. This profit of 5.2 percent per annum after taxes for each operating year is on the original investment cost. This is actually 8.96 percent per annum after taxes on the unrecovered and outstanding investment, and when one adds the interest on an after taxes basis, the total earning on the outstanding investment is 11.06 percent per annum after taxes.

I say that that is the minimum case that can be expected even if you have no use for this plant whatsoever after the five-year life of this facilities contract. If you do have use for this plant as an alkylation plant after the five years are over, then the 8.5 percent per year is likely to have been retained and that in terms of what it represents per annum on the unrecovered investment is commensurately larger.

Now what are the chances for such an alkylation plant to operate during the five years after completion? Based on the studies made by PAD as mentioned by Colonel Worcester, we estimate that any plant that can produce and sell product avgas or alkylate in the range of normal cost market prices in the area where the plant is located will be able to operate even in peacetime conditions for as long as any fugures have been projected by PAD? This is based, of course, on the assumption that the total maximum aklylation capacity of the U. S. is not in excess of the goal outlined by Colonel Worcester.

From the negotiations we have had with companies already in this program and others with whom negotiations are essentially completed for such contracts, we believe that the plants they are building or will build will produce alkylate or avgas in the range of prices of normal cost production in their areas.

There is every reason to believe that based on the figures that we have seen and worked over and have been agreed upon in three cases, and they have virtually been agreed upon in three additional cases, the prices are normal cost in the areas where the plant exists, the reason being that if we take the alkylation plant to the source of the federal stocks the resulting price is a normal price at that refinery.

The shipment cost if that happens to be involved because of location of the alkylate is considerably less I am sure you can all appreciate in the cost of moving all of the gasseous federal stocks to an alkylation plant and perhaps even then furthermoving the product to a blending point.

In essentially all cases, these plants and their operating costs are being sized on the butylene availability at the refinery with a view to their definitely contributing to meeting the substantial increases in requirements of the premium grade aviation gasoline -- grade 115/145 -- that are forecast.

Many of the plants that are now operating are operating propylene and when the demand for grade 115 rises , it will become impractical for inclusion in grade 115 unless we go to the high cost addition of tolulene to pick it up in quality.

So if we build these new plants at the sources of butylele alkylation we visualize that we will come out with normal cost product, or in the range of, let's say, normal priced products in that area and that they will be able to operate to meet the 115 demand, 115/145 demand, as against many plants that are now in operation which will have to reduce their level of operation because of the limited availability of butylenes at their refinery locations.

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We are confident that your stockholders' money can be safely and soundly invested in this program to build up our national security. Where equity capital is tight, loans from banks or from Government can be adequately secured. We seek your consideration of the alkylation facilities contract as an investment that will enable your companiesto provide the additional alkylation capacity at your refineries where the gaseous feed stocks are produced.

PAD and ASPPA invite you to come and sit down with us and discuss in detail the full measure of protection of the investment which is afforded by this facilities contract, and the potentialprofits to be earned from operation.

As Colonel Brown indicated earlier, we plan to contact some of you and go to your offices in the hope that we can lay the story on your table in much greater detail than this, and we certainly seek your coop ration in it.

Thank you.

MR. WARREN: Are there any questions?

(There was no response.)

MR. WARREN: If not, we will proceed to the next subject, which is that of critical material availability. Mr. Morrison has talked to the council on various other occasions. He will leave the PAD on October 1 to return as manager of materials of the Texas Company.

STATEMENT OF RICHARD M. MORRISON,

DIRECTOR, MATERIALS DIVISION.

MR. MORRISON: Mr. Chairman and gentlemen: It is such a pleasure to work for the Oil Industry. I am reminded of my first sentence at the last council meeting, talking about material. My opening remark was - and I quote:

"The materials situation continues to improve."

During that period and prior to the steel strike our efforts were devoted to determining the answer to but one main question: Arethere sufficient productive facilities to produce the equipmnt and supplies that are going to be required by the petroleum industry to carry out our approved 18-momth expansion program, assuming that sufficient materials will be made available?

A study was completed, wherein the increased quantities of drilling mud chemicals, the chemicals consumed in the conversion of crude petroleum to marketable products, and the increased requirements of lubricating oil additives and catalysts were compared with availability and productive capacity. Although the petroleum industry consumes some 600chemicals in various manufacturing operations, excluding laboratory chemicals, the actual study involved a group of but 31 chemicals which are consumed in substantial amounts by the petroleum industry and which are required to carry out basic oil production and refining operations and natural gas processing, as well as the manufacture of gasoline fueloil and lubricating oil. Alkalis, such as caustic soda, soda ash, etc., although consumed in large quantities by the petroleum industry, are in ample supply, and were not included in this survey.

The petroleum industry requirements for each item were compared with the total national production and apparent shortages and critical items were analyzed and if definite expansion programs were not under way recommendations were made to the proper agency.

The $4,000,000,000 of pr ojects that had been approved by PAD were reviewed. Progress reports wereobtained from operators, and the Refining Division pa rticularly now has full and complete data on all of its construction projects. This information is invaluable now and during the coming months will be increasingly so.

Questionnaires were mailed to 230 representative manufacturers of various types of oilfield equipment, to determine their productive capacity with existing facilities, in relation to their present production. With few exceptions, (only 5 necessity certificates were recommended for approval) this questionnaire disclosed that existing facilities are adequate to meet an expanded drilling program on any scale commensurate with that afforded by present limitations on productive capacity of oil country tubular goods.

A meeting was called of the Industry Advisory Group, which Mr. Warren attended, and Mr. Foree. Charts were prepared, and the projected requirements of the oil country tubular goods were laid before the manufacturers, attempting to prove to them that our requests were realistic, and it was not just a one-year, one and a half, or two-year proposition; that we had increasing requirements which would continue to increase through the years 1953, 1954 and 1955.

The hope there was that certain of the mills would encouraged to put in additional manufacturing facilities for oil country tubula r goods.

About that time - and again, remember that this was before the strike - Bruce Brown insisted -- he was the boss man at that time -- over my strenuous objections, that I go to Europe and look over the situation there again to find out the same story, what was necessary to increase production of oil country tubular goods and other items that were required by the petroleum industry.

Why was it that so many requests came to the States for controlled materials when other companies were able to obtain them abroad?

He wrote me a letter about three pages fullof questions. I was to come back with the answers. Just about that time, lightning struck the proverbial house. Since then we have been trying to determine just what the effect of the strike is going to be. We cannot tell exactly.

We have talked to the NPA agency and we have talked to various manufacturers, but there is one thing certain: that the full impact has not as yet been felt. The serious impact will be between September 15 th to October 1st.

Your drilling rigs are going down at the rate of 100 a week and their drawing inventory is appreciably below the irreducible minimum. Those inventories have to be brought back.

There is some question as to when we are going to get in full steel production. Some of these blast furnaces are developing pains and they are like a baby. You cannot tellwhat is the matter with them. They cannot see inside. They are afraid there is some serious trouble in some of these blast furnaces. So that the possibility of getting back into fullproduction is pretty dismal for the next thirty days.

We have also written our recommendations to Mr. Fowler, suggesting what PAD recommended. We did a little missionary work among some of the other agencies like Defense Electric Power, the Construction Branch of NPA, the Mining and Minerals Branch, attempting to put up a uniform front, so we did not find that we were dealt out of this deall before we ever had a chance to talk. We held the first meeting this morning of the DPA Materials Requirements Committee, and, as usual, on my way to the meeting I read in the paper what had been decided. It would be interesting to note the difference between our recommendations and w hat it looks like they are coming out with.

We are still not satisfied, and after this main meeting this morning we held another meeting among the Heavy Construction people. We did obtain at least momentary satisfaction, that they would consider our problem and do something about it, in all probability.

We had seven specific recommendations that I won't take your time going over, and we are not too far apart as to what is going to happen.

The Military is to get first choice. There is no question about that - we probably couldn't stop that, anyway. Our recommendation was that they just hold everything the way it was. Keep all of the directives that were in effect at the time of the third quarter determination. That would take care of the oil country tubular goods, plate directives and certain other things like that. Let everyone take this loss evenly, and don't create any favorite sons or any of these political favorites, just deal the cards, across the board, just the way we had them before the strike, and we would take care of ourselves.

They seemed to think that the complete recovery of the steel strike can be effected by the end of the first quarter. They also think in terms of a 60-day loss of steel. We disagree w ith that completely. We think the ultimate loss of steel - and that is the steel we are interested in, and that is the pipe in all its forms, and heavy plate and heavy structurals that move almost without interruption from the mill through the fabricating shops and out into the field, that the loss is the complete loss of every hour that the mill did not operate at capacity.

In other areas, such as we will say cans, personally, I don't even look on that as a loss. There isn't any loss. It is true some of the can plants may be down now, but that will be made up. In the period of, we will say, 90 days at the most, and probably 60 days after full production the oil can situation will have made up, and so will have many of the highly fabricated items. The big blow is going to come first between now and September 1, and September 15th, on controlled materials, and then after that it will rock along a bit until probably after thefirst of the year, and you are going to get caught on the components, because the inventory situation is going to be such that it is unbalanced. They are going to have to stop production of some of these semi-finished projects, waiting for just items to finish.

We think the main trouble willbe from now until September, and then right after the first of the year, and continuing on throughout the spring there will be constant interruptions.

We are back to the old story of sitting down and declaring essentiality of projects which, thank Heavens, the Materials Division has nothing to do with, but we are going to have this resulting in some action. We are going to have to enter into it. Some of you gentlemen are going to be disappointed because of certain lines which are going to have to be disrupted. If we can have our way and DPA will interrupt the PAD program to the extreme minimum, we think we have enough flexibility on our own operations to take care of the most essential requirements with a minimum of interruptions. You are not going to like it, I am certain, if many of you gentlemen were sitting in the same position, of having to decla re essentiality, in having to take whatever action was necessary, that you would have the courage to do it.

Thank you.

MR. WARREN: Are there any questions of Mr. Morrison?

(There was no response.)

MR. WARREN: If not, I would like to introduce Mr. Bob Foree, who will talk about the oil country tubular goods situation.

Mr. Foree.

STATEMENT OF ROBERT L. FOREE,

DIRECTOR, PRODUCTION DIVISION.

MR. FOREE: Thank you. I am on the tail end of the PAD program, and I believe I should be there, in view of the fact the amount of tubular goods on hand is not very hard to carry.

Mr. Walter, with all the laurels you brought back from Chicago, you might have brought one of those teleprompters. You just had one over there. I could use it today. Maybe there is a good Democrat on the Council that could bring one. They seem to have had two of them. In fact, they had more candidates and more delegates and more teleprompters than the Republicans.

Do you remember the last Council meeting when I reported to you that the tubular goods picture for the third quarter was bad? For the fourth quarter it is really bad.

You are aware that the applications have been returned to you for the fourth quarter with a letter in which we said "No allocations for the fourth quarter." It did, however, say that there would be some conversions.

Even though the strike is over, and as Mr. Morrison has just outlined to you, we feel we have lost the full fourth quarter.

There will be no regular allocation or regular mill tonnage for the fourth quarter. It is going to take all of the remainder of the year to finish the delivery of the second quarter material that has not been delivered and to complete the third quarter schedule. We are taking steps to see that the valid second and third quarter tickets will be good. Since all the tickets issued were within existing mill production, such tickets should be assured of actual delivery of pipe. We have not given out any more tickets in the third quarter than NPA said would be produced. We do not plan to do so in the succeeding quarter.

Those who indicate on time they desire some of the conversion willbe given every possible consideration.

However, this time we do not have an estimated amount of how much conversion there willbe. It might be interesting for you fellows to note the statistics of the fourth quarter. We had applications for casing tubing of 2,509 timely applications. The total tonnage requested by these amounted to 1,171,000 tons.

The calculated needs for these operators amounted to 527,711 tons. The regular mill tonnage available for allocation, Zero.

It appears that PAD's fifty thousand well program will be seriously affected when the full impact of theloss of tubular goods completes its cycle. There were 2,847 rigs operating in the United States on May 12th, 1952, which was the high point of the year so far. This number has been reduced to 2,445 on July 21, a reduction of 402 drilling operations. This decline will shortly reflect its impact on well completion.

However, as late as June 28th, completions were 11.2 per cent above last year, and had the industry been able to get the material, it appears that the 50,000 wellprogram, that more than 50,000 wells would have been drilkd in 1952.

As most of you know, on July 16, the Pittsburgh Steel Company was directed by NPA to ship to their distributors 6,400 tons of casing and tubing, to be used for emergency allocation. At the same time all M-6A stocks were frozen, and can only be delivered on an H2E authorization. M-6A is the designation given to field stocks in the supply companies' hands. The purchase of the material has been delivered and can be delivered normally against an H2E authorization. Operators who drill more than 20 wells a year use the H2 symbol, but have been restricted to mill shipments. H2E is the symbol used to obtain material for emergency.

This freezing of the stocks placed all of the stocks, emergency and M-6A, with the exception of drillplate, in the emergency classification. The primary purpose for the Pittsburgh directive was to continue wildcat drilling and since the directive has been issued on Pittsburgh, 505 applications have been approved and mailed out. As a matter of fact, these have been approved during the period of June 3 to July 18, but not mailed out because of short supply. It is PAD's hope to be able to restore and maintain the emergency stocks to at least their former level, so that this important phase of the business might continue at as high a level as the operators care to drill.

With the emergency stocks now on hand, PAD is in a position to assist any operator, large or small, who may have a real emergency.

To illustrate, your inability to maintain a program cannot me considered an emergency. On the other hand, an inventory carrier who is out of balance as to sizes and to whom a small amount of tonnage will enable them to carry considerable tonnage in the drilling of wells that are necessary because of lease terminations, may be given assistance from the present emergency stocks.

It is PAD's intention to return to former status 6A stocks as soon as full production again moves from the mill. Prior to the strike, the Production Division was seriously considering opening 6-A stocks to any holder of an H2E authorization.

Of course, the present emergency deferred that action to the future.

There is some question kicking around about the unused foreign produced pipe in the inventories, taken into the inventories of the domestic ope rators. The Production Division would prefer to see foreign-produced tubular goods going first to those companies operating abroad, for their foreign operations. It would like to see the remainder of the production of foreign mills, if any, used to supplement domestic needs.

We would also prefer to see that foreign-produced pipe now in the hands of domestic operators not be charged to their inventories. We would like to see it go where it belongs first, and the remainder of it come in here and go to work.

Finally, it is important for all of us to remember that for all practical purposes we have lost a fullquarter of oil country tubular goods.

In view of this critical situation, therefore, it is suggested that you carefully review your immediate future drilling program so that the materials on hand and obtainable during the remainder of the year shall be used to its fullest advantage.

We urge the utmost cooperation among the operators in trading and lending their tubular goods during this, I repeat, most critical situation.

Thank you.

MR. WARREN: Are there any questions of Mr. Foree?

(There was no response.)

MR. WARREN: If not, I would like to make a statement.

In talking about the East Coast feeding oil, in the gas branch they are having their problems also. It is interesting to note that during the last five years the demand for heating oil on the East Coast has increased to almost 100 per cent, and also the same for gas.

The Gas Branch of course will report to the Natural Gas Council, but customers will make a lot of the lines critical with the reduction in steel, which we estimate about 35 per cent of that allocated for gas during the steel strike, it is going to make that also a problem.

The only other thing I would like to do, we have a few men on our staff, Mr. Bill Simon, who is Associate Chief Counsel and will succeed Mr. Elmer Batsell on September 1.

Would you stand up, Mr. Simon?

Mr. Walter Keefe. Is he in the room?

Mr. Keefe is director of production for the Foreign Division.

Mr. Lawrence Lee, who is Director of the Marketing Division, is leaving early in September to return to the Husky Oil Company. Is Mr. Lee in the room?

Mr. Robert Stevens, Assistant Director of the Program Division willbe leaving soon for his former position with Standard of California.

That concludes our pa rt of the program, Mr. Hallanan.

CHAIRMAN HALLANAN: I want to take this oppostunity on behalf of the Council to compliment you and congratulate you upon this fine presentation of the various problems with which you and your staff in PAD are dealing.

When the members of the Council come here from all parts of the country, take the time to confer and advise with you and your arm of the Government on these problems, I think these meetings represent something that is a real contribution to the defense problem with which we are dealing, and certainly this presentation of the many far-flung problems with which you are dealing, you and your PAD staff, has been most interesting and revealing. I know it has been very worthwhile and the members of the Council are deeply appecia tive of what you have given us today. (Applause).

CHAIRMAN HALLANAN: The next matter on the agenda is the report of the Committee on Oil Country Tubular Goods, by Mr. RussellBrown, as chairman. That committee was appointed a good long while ago. It has gone through a very extensive research program, investigation, and while it has been in the course of that investigation that a great many things have developed that were not anticipated when the committee was originally appointed, the situation has been met.

I know Mr. Brown and his committee has given great thought and spent a great deal of time on the report which willbe presented.

I am now glad to present Mr. RussellBrown, as chairman of the committee.

REPORT OF COMMITTEE ON OIL COUNTRY TUBULAR GOODS,

RUSSELLB. BROWN, CHAIRMAN.

MR. BROWN: Mr. Chairman, each time that I act on one of the Council's Committees, I am again impressed with the fine attitude that the members of this Council held in responding to this Committee work. They have been unusually fine in this rather difficult problem and have not only given their own time but they have made available to this committee a working group of unusually capable men. Because the working group was not often mentioned, I am going to mention them at this time.

The secretary of this committee was Minor Jamieson. He was assisted by H. W. Ladd, of Stanolind Oil & Gas Company, E. R. Leisure, of the Phillips Petroleum Company, Mercer H. Parks, of the Humble Oil & Refining Company, G. F. Poe, General Superintendent of Production of the Ohio Oil Company, I. S.

Salnikov, of the Standard Oil Company of New Jersey, and R. C. Zell, of the Union Oil Company of California.

In addition to this, the peculiarities of this work required an unusual amount of time on the part of the permanent staff of this Council. I would be remiss if I did not call attention to the very great assistance they rendered the committee. We had to send out some 6,300questionnaires and get them back in, and have them tabulated and worked out.

The staff's assistance on that made possible the final finishing of this work. The report is in your hands and the details of it I think you willfind interesting, if you are interested in this problem, because it reflects some extremely unique phases of the production problem.

Our assignment was to study the range of casing and tubing sizes needed in domestic petroleum development and producing operations. After exploring every available source of information, your committee concluded that proper size ranges could be determined only by surveying the industry through a questionnaire.

The cooperation of operators in submitting the detailed information on the questionnaire was outstanding. A total of 1601 returns were received of which 1016 contained adequate and usable data.

The completed questionnaires covered 72.3 per cent of all wells drilled in the United States during the fourth quarter of 1951. Your committee believes that this provides an adequate and representative basis for its study. Commendation is due to all those who contributed to this extensive coverage.

The report of this committee is unique in that it presents for the first time the collective judgment of many operators as to desirable pipe sizes. The benefits to be gained will come primarily from a careful analysis of the detailed material contained in the report and its tabulations. It is of interest, however, to point out certain significant findings.

Casing requirements in the production string sizes are particularly important. The survey reveals that operators desired 35.6 percent of the total casing tonnage in the smaller sizes, 4½" through 6-5/8". The percentage in these smaller sizes actually shipped from steel mills in 1951 was 31.7 per cent. This would indicate that the industry desired an increase in mill shipments of the smaller sizes amounting to 3.9 per cent of the total casing tonnage.

For 7" casing the survey showed 31.1 per cent required as compared with 34.8 per cent shipped by the mills. From these figures it would appear that the industry desired a reduction of 3½ to 4 per cent in 7" casing with a corresponding increase in the smaller sizes.

For the larger sizes above 7", the total requirement was almost identical with 1951 mill shipments.

The survey showed a considerable trend toward 2-3/8" tubing. It would appear from the survey that the industry desired an increase in mill shipments of $8\frac{1}{2}$ to 9 per cent of total tubing tonnage in the 2-3/8" size with a corresponding decrease in 2-7/8" tubing.

A large pa rt of the percentage differences between requirements and mill shipments was offset apparently by the use of second-hand materials, imported pipe and conversion pipe. The size ranges for all tubular goods availa ble from these sources and from regular mill shipments did not differ widely from the total requirements. However, for individualoperators, there were considerable differences which are obscured in the total figures.

Almost half of the 1016 operators covered by this survey reported a preference for different material for some pa rt of their available supply. Every possible change in casing size was desired with many of the changes offsetting each other in the totals.

For exaple, there were 142 operators desiring 5-1/2" casing instead of the material availa ble to them, but this tendency was partly offset in the totals by 67 who desired 7" in pla ce of what was used.

These offsetting cases indicate a need for better coordination of requirements and availability. Such distribution problems inevitably accompany a shortage condition. The effects of relatively small differences in the over-all size ranges are multiplied and serious situations result for individual operators.

Your committeehopes that this study will contribute toward a solution of the difficulties involved as to pipr sizes. In its work, the Committee was aided immeasurably by the thoughtful contribution by the members of its Working Group. In particular I would like to express appreciation for the services of Mr. H. W. Ladd, of the Stanolind Oil and Gas Company, whose experience, judgment and tireless efforts were a major factor in the success of this study.

In apologizing for some delay, I might say that some of the most important figures were not available to us until within the last three weeks. That delayed the final outcome.

Mr. Chairman, I submit the report.

CHAIRMAN HALLANAN: You have heard the presentation of the report as submitted by Mr. Brown, the Chairman of the Committee.

Arethere any questions? The question is upon the adoption of the report of this committee.

(Moved and seconded.)

CHAIRMAN HALLANAN: It has been moved and seconded that the report of the committee on oil country tubular goods be adopt ed. All in favor indicate by saying "Aye". Contrary "No." It is so ordered.

Mr. Brown, I want to express the thanks of the Council to you for the fine leadership you have given in the preparation of this and the direction of this work. It is a very valuable report, and one I know willbe tremendously helpful in the months and years ahead.

The Committee on Petroleum Capacity of 1952, Mr. Westcoat, Chairman.

Mr. Westcoat.

REPORT OF COMMITTEE ON PETROLEUM STORAGE CAPACITY, (1952) - L. S. WESCOAT, CHAIRMAN.

MR. WESCOAT: Mr. Chairman, this willbe very brief. This is an interim report, due to the la rge amount of detail work necessary to obtain the information.

Pursuant to the letter of Chairman Hallanan, dated May 14, 1952, all members of the Committee were contacted, and it was agreed that no immediate meeting of the Committee was necessary.

A Subcommittee was appointed, consisting of Messrs. John Arens, Union Oil Company of California; John Boatwright, Standard OilCompany (Indiana); Marion E. Dice, General Petroleu, Corporation; Richard J. Gonzalez, Humple Oil & Refining Company; Albert J. McIntosh, Soconl Vacuum Oil Company, Inc., with Fred Van Covern, American Petroleum Institute, as Chairman. Mr. Van Covern will act as an individual in receiving and compiling the data for the Committee.

The Subcommittee has re-studied the questionnaire forms used in obtaining information for the 1950 report, and has expanded the forms to supply the detailed divisional information requested by the Petroleum Administration for Defense.

A number of questionnaires have been returned and when full data has been received, the results will be tabulated and placed in form for submission to the members of the Committee.

Since the information requested from the reporting companies is of a different type and more extensive than previously requested and necessitates substantially more accounting work, the finalreport will require additional time for preparation, but it is hoped that it can be made available at the next meeting of the Council.

CHAIRMAN HALLANAN: We will receive that as an interim report, and look forward to the final report, if possible, at the next meeting.

Now we will have an interim report of the Committee on Synthetic Liquid Fuels Production Costs, W. S. S. Rodgers, Chairman, and this willbe given by Mr. L. C. Kemp, Jr.

INTERIM REPORT OF THE COMMITTEE ON SYNTHETIC LIQUID FUELS PRODUCTION COSTS, MR. W. S. S. RODGERS, CHAIRMAN.

MR. KEMP: Mr. Chairman, Mr. Rodgers regrets he is unable to attend. Since he is unable to do so he has asked thatI present this interim report of the National Petroleum Council's study on Synthetic liquid fuels production costs.

As instructed by the National Petroleum Council at its October 31, 1951 meeting, the subcommittee on Synthetic Liquid Fuels Production is proceeding with the studies requested by the Secretary of the Interior. The subcommittee has been actively engaged in a continuation of their investigation, and the status of the remaining work is as follows:

1. The work on the alternate method of coal hydrogenation has been completed by the subcommittee and a formal report is now being prepared.

2. It has been necessary to defer work on the alternate method of retorting and processing shale oil until data are availa ble from the demonstration retort unit now under construction by the Bureau of Mines. The subcommittee has been advised that this retort will be completed in September, 1952, and it is believed that thesubcommittee report on this study can be submitted during the latter part of 1952.

3. Because of manpow er limitations of the Bureau of Mines, it has been necessary for the sumbommittee to give considerable aid in the design of a Fischer-Tropsch synthesis plant. Many of the design calculations and designs will be that of the subcommittee and agreed to by the Bureau of Mines instead of the procedure envisioned in which the subcommittee would review designs of the Bureau.

The process design is practically complete and the estimation of the investment cost of the plant is proceeding. It is anticipated that this study will be completed during the latter part of 1952.

I might add that we feel the entire job assigned to the committee will be completed by the end of this year.

At the April 22, 1952 meeting of the National Petroleum Council it was stated that the subcommittee would report on its review of a report by the Ebasco Services, Inc., entitled "Coal Hydrogenation Plants: A Review of Certain Elements of the Bureau of Mines Cost Estimates for Synthetic Liquid Fuels" dated March, 1952. The subcommittee has submitted a summary letter with an attached memorandum concerning the results of its analysis of this report. This letter and memorandum are included as a part of this interim report.

At this time I propose only to read the letter. I commend the memorandum to those who are interested in the rest of it.

The text of the letter is as follows:

The National Petroleum Council's Synthetic Liquid Fuels Production Costs subcommittee has reviewed the report by Evasco Services, Incorporated, of March, 1952, entitled "Coal Hydrogenation Plants: AReview of Certain Elements of the Bureau of Mines Cost Estimates for Synthetic Liquid Fuels." The Ebasco report has been given considerable publicity and unfortunately many of th4 reviews have presented a distorted picture of the information given in the report. A more factual and detailed comparison of the Ebasco estimate with the subcommittee's report of October 15, 1951, is attached.

Ebasco Services Incorporated was engaged by the Bureau of Mines to review certain specific sections of their report entitled "Cost Estimate - Coal Hydrogenation, Revised January 11, 1951." In accordance with instructions of the Bureau of Mines, no reference was made to the report of the National Petroleum Councilsubcommittee. The report of the Epasco study is limited in scobe since it concerns itself only with those points specifically requested by the Bureauof Mines. Because of this limitation, the following statement was included in the Ebasco report: "This report, therefore, contains no over-all conclusion with respect to the projectas a whole.

Even so, the Ebasco investigation was sufficiently complete to allow them to conclude as follows:

"We do not believe it would be feasible to finance the project described in theBureau of Mines report dated October 25, 1951, with private capital under conditions prevailing as of January 1, 1951."

The Ebasco report states that an indicated return on equity capital would have to be from 14 to 16 per cent in order to attract private investors. Using the capitalization of 50 per cent funded and 50 per cent equity capital as recommended by Ebasco, this would amount toan average of 8.4 per cent on the total investment, after 50 per cent income taxes. This is compa rable to the 6 per cent used by the National Petroleum Council subcommittee for the purpose of calculating the cost of gasoline. The subcommittee's report of October 15, 1951 emphasized that Price Waterhouse & Company had offered the opinion that a minimum of 15 per cent on total investment after taxes would be required.

The Ebasco report clearly presents the additional yearly income required for the necessary investment return of 15 per cent, averaged, on the equity capital. Adding this additional income to the other costs developed by Ebasco results in a gasoline cost of 27.1 cents per gallon. This is considerably different from the 11-17 cents per gallon costs appearing in some published statements.

Misinterpretations of the true comparison between the Ebasco report and the National Petroleum Council's study is due in some measure to the continued revisions to the Bureau of Mines report upon which the studies are based.

The Bureau of Mines report of January 11, 1952 is the fourth revision by the Bureau of Mines since issuance of the report of August, 1919, upon which the National Petroleum Council was requested to base its studies. Each issue of the Bureau of Mines report has increased chemical production so that the plant now described derives 53 per cent of its revenue from chemicals when selling gasoline at present prices. It is evident that this plant is more of a chemical venture than a synthetic liquid fuels project. It is also apparent that adoption of coay hydrogenation to supply even a moderate percentage of the gasoline requirements of the United States would result in a chemical production far exceeding the demand.

Ebasco used a production rate of 30,000 B.CD of total liquid product, as directed by the Bureau of Mines. No study was made by Ebasco as to the adequacy and capacity of the plant as a whole . The subcommittee had estimated that the plant designed by the Bureau of Mines would produce only 27,000 B/CD of liquid production.

Ebasco reviewed the investment cost of only two sections of the plant, representing about 25 per cent of the total investment required. No appreciable discrepancy exists in the estimated cost of the hydrogen purification and compression facilities, representing about one-half of the investment review.

The Ebasco estimate of pow er pla nt facilities is approximately 24 per cent lower than the cost estimate by the subcommittee when placed on a comparable basis.

An effort was made to resolve these differences through conferences with Ebasco. However, the subcommittee was unable to obtain any details on the Ebasco investment estimates.

Again the size of the utility pla nt as specified by the Bureau of Mines to Ebasco is belie ved to be insufficient.

Higher operating labor requirements were estimated by Ebasco than by the subcommittee, which in turn was considerably above the Bureau of Mines. The total of direct operating costs determined by Ebasco substantially agrees with the subcommittee estimates and differs materially only with regard to maintenance labor.

Operating costs as developed by Ebasco were on the basis of "a minimum operating force on the basis of an experienced crew in a well run plant."

The report stated that during the first three years of operation it might be necessary to have about 25 per cent additional labor to handle start-up problems. This additional cost was not included in any of their evaluations.

The Ebasco estimate of total indirect operating costs is considerably lower than the estimate of thesubcommittee, due mainly to differences in estimates of cost items, such as administration and overhead, depreciation, taxes and insurance. The subcommittee's estimate of administration and overhead costs was based on a large amount of operating history. It is believed that theestimate by Ebasco is unreasonably low. A depreciation rate of 4 per cent was used by Ebasco. The subcommittee used 5 per cent which is below the depreciation rate now used by the Petroleum Industry in establishing the cost of gasoline from petroleum. In addition, some discrepancy in depreciation charges is due to the low estimate of plant investment as estimated by theBureau of Mines.

Ebasco and the subcommittee do not differ to any great extent on the amount or cost of housing involved, nor do they disagree as to the desirability of divorcing the housing burden from the plant. The Ebasco study indicated that local capital would underwrite thehousing at Rock Springs. However, the subcommittee was forced to conclude that, at Rock Springs, Wyoming, it would be necessary for the plant owner to underwrite such housing.

The Ebasco report is careful to point out that no provisions were made for wage incentives and similar labor premiums which the subcommittee believed to be necessary for attraction of construction labor in the area involved.

In order to illustrate the comparison of the estimates of gasoline costs by the National Petroleum Council report of October 31, 1951, the Ebasco report of March, 1952 and the Bureau of Mines report of October 25, 1951, revised November 19, 1951, the attached graph has been prepared.

Sulphur and ammonia facilities are not included, in order to make the comparison easier. The following costs, expressed as cents per gallon of gasoline are shown on this chart:

	NPC	Ebasco	USBM
Manufacturing Costs	25.3	19.5	17.7
Housing Costs	2.6	--	--
Financial Charges	19.0	22.0	8.2
Total Costs	46.9	41.5	25.9
Less By-Product Revenue	5.5	13.4	14.9
Gasoline	41.4	28.1	11.0

The above comparisons clearly illustrate that the total costs as calculated by Ebasco are appreciably closer to the subcommittee estimate than to the Bureau of Mines figure.

The la rgest difference between Ebasco and the sub-c ommittee is due to the credits for by-product chemicals. Estimated production (and revenue) of chemicals has been increased by the Bureau of Mines since their original repor t of 1949. Revenue from chemicals in the proportion of sales visualized by the Bureau of Mines would apply only to the first few plants. The subcommittee believes that the project should be valuated primarilyas a synthetic liquid fuels venture.

That concludes our report, Mr. Chairman.

CHAIRMAN HALLANAN: Mr. Kemp, this is presented as an interim report. Might I ask you if you would be good enough to remain after the recess? I would like to have members of the press come in.

MR. MAJEWSKI; May I ask Mr. Kemp a question?

Mr. Kemp has in here a statement that he was unable to develop - or the subcommittee was unable to develop or obtain any details on the investment estimates. Is the Secretary able to help us in that direction? Was it a refusal to give us the figures or give your subcommittee the figures?

MR. KEMP: Our experts in that particular field met with the Ebasco people. We rather gathered the impression if we were to enter into a contract with them, they would be willing to provide us with the information. They felt it was their private information.

CHAIRMAN HALLANAN: Does anyone else wish to say anything at this time?

MR. SCHROEDER: Mr. Chairman, I would like to make a short presentation.

STATEMENT OF W. C. SCHROEDER,

ASSISTANT DIRECTOR, BUREAU OF MINES.

MR. SCHROEDER: I always enjoy these opportunities to talk to the Council because the Bureau is always in such complete accord on this coal hydrogenation work.

I realize thehour is late and you have been here quite a long time. I won't take much time.

This is, of course, the first time I have seen this report and theBureau would like to give it very thorough study and prepare a detailed reply, but I think there are a number of questions raised by Mr. Kemp that we could answer more or less directly.

~~One was~~ First: What did we ask Ebasco to do for the Bureau of Mines?

One thing we asked them to do was to check the capital cost. We did not ask them, however, to review the whole estimate, and to estimate all thecapital costs, because, as you know, this is an extremely expensive job. It will probably run to several hundred thousand dollars. So we took the items in which the disagreement was greatest.

As a matter of fact, there are two items, the power plant and the employee housing, which account for seventy per cent of the total difference in capital costs between NPC and the Bureau of Mines.

On those items we find for housing the Bureau of Mines had $5,000,000 at Rock Springs and NPC had $67,000,000.

Ebasco dropped that to one-quarter of a million dollars.

On the pow er plant the Bureau of Mines had $55,000,000. NPC had $79,000,000. Ebasco dropped that to $51,000,000.

I would like to dwellon that power plant estimate for just a few minutes. Ebasco, I think, is recognized as one of the preeminent firms in estimating the cost of power plants. They are primarily in the utility field, and I think they take a back seat to no one in that particular instance.

They re-estimated the power and steam requirements as set forth by the Bureau of Mines, and raised them substantially over our requirements. I believe they are about equivalent to the power requirements and steam requirements as set forth by NPC.

After this they estimated their power plant, but instead of coming up with $79,000,000 as NPC did, they came up with $51,000,000. I put to you gentlemen, if on one item a well-known design like a power plant, we find that the NPC estimate can be high by about $28,000,000, it is a very serious error.

If such errors have crept into the rest of the estimates, I think it could be a great deal higher than it really ought to be.

Now I would like to discuss with you the raw materialrequirements, thecoal.

At Rock Springs, theBureau of Mines estimated coal costs at $2.50 a ton. NPC estimated coal costs at Rock Springs at $2.16 a ton. In other words, we took a coal cost which was higher than NPC.

In the Kentucky case we also took a coal cost of $2.50 a ton. NPC took a coal cost of $4.20 a ton.

Now, in Rock Springs the seam is between six and seven feet thick and is about the same thickness in Kentucky. The pitch of the seam atRock Springs is considerably greater than it is in Kentucky. The floor and theroof conditions are fairly comparable.

I just do not believe that you can mine coal at Rock Springs for $2.16 a ton and cannot mine it in Kentucky for lessthan $4.20 a ton. There is something wrong there some place.

The Bureau of Mines does not believe at thepresent time that you could use figures of $2.16 a ton for coal mined at Rock Springs. We think something like $2.50 or $2.60 a ton would be better.

We think the same thing is applicable in the case of the Kentucky coal.

For the Manpower requirements, the Ebasco report shows considerably more manpower than the Bureau of Mines report, but it showed considerably less total manpower than the NPC report.

Let me pause just a few minutes and talk about some of the elements of ope rating costs studied by Ebasco.

Again, we took only those operating costs in which NPC and the Bureau of Mines were at great variance.

The Ebasco report comprised - the studies they undertook really covered about 70 per cent of the differences that were involved in the operating costs.

Ebasco's selling price with a 15 per cent return on 50 per cent equity capital after taxes comes out to about 17.6 cents per gallon for the Rock Springs case, slightly less for the West Kentucky case.

Those figures are quite comparable with thefigures that the Bureau of Mines pointed to in its study in 1951.

I would like to talk just a few more minutes about some other cost studies on coal hydrogenation.

In the Paley report, the Koppers Company reports a study on coal hydrogenation in which they give a capital cost of $306,000,000 for a 30,000 barrel a day plant which compares to the Bureau of Mines figure of $414,000,000 and the NPC figure of $532,000,000.

The Koppers is the lowest of the three by a considerable amount.

On the basis of ten years' depreciation, Koppers gives the cost of the product, including all taxes and 4 per cent on your money, and amortization of the plant in ten years, at 17 cents a gallon.

It was agreed by NPC and the Bureau of Mines that a realistic figure for depreciation of the plant would be about 20 to 25 years.

On that basis the Koppers' costs, not selling price, dropped down to 12 cents a gallon. The Bureau's costs of the over-all product figures out at about that same figure, about 12 cents a gallon.

Let's review for a minute all the studies that have been made on coalhydrogenation.

There was first the Bechtol Bureau's studies made in 1948 at a cost of about $200,000 to $300,000. That came up with a total cost for liquid products 11 to 12 cents per gallon. The Bureau reviewed that study and brought it up to date in 1951 and particularly it took advantage of a greater chemical production because of increased chemical markets, and came up again with a cost of 11 to 12 cents a gallon.

The Koppers' study to which I have just referred, which was issued in 1952, also showed a cost of about 12 cents a gallon.

Carbon and Carbide, who have spent approximately $20,000,000 on the research, and CoalHydrogenation, who have recently published a number of articles about their pilot plant at Charleston and Institute, West Virginia, have not made any statements regarding costs, but they say this pilot plant, they believe, willbe a profitable venture.

Ebasco and the Bureau of Mines have completed another costs study in 1952, and again we come out with acost of about 11 cents or 12 cents a gallon.

If you add the 15 per cent profit on 50 per cent equity capital, that will bring your selling price somewhere around 17, 18, 19 cents a gallon, depending on your raw materials cost, et cetera.

I would like to point out one more thing, that all of this discussion applies to a plant which we all know today is obsolete. I had the opportunity about two weeks ago to visit the plant of the Union Carbide Company, the Charleston, West Virginia plant. That plant was built after the Bureau of Mines pla nt was under construction, and probably after we finished most of our design work. I think it is fair to say that they have made very definite improvements over the design and construction of that plant in comparison with our plant at Louisiana, Missouri. It is our conclusion that conservatively their design would cut our costs by at least 25 per cent, and very likely by as much as 35 per cent.

So I think that if you want to look at coal hydrogenation in the over-all, and not this obsolete plant necessarily, that you will come to pretty good agreement with the statement by G. G. Fellbach, the Vice President of the Carbide Company, which was: "Our decision to build the pilot plant at Institute was, of course, based on extensive studies of the economics of the process. Obviously we came up with the answer that this would be a profitable venture."

It is true that that statement is based on a high production of chemicals, but if you will study the Carbide picture c losely, you will find that they believe that the market for chemicals is expanding rapidly, and that this process could c ontribute materially both to chemical and fuel production.

Thank you.

CHAIRMAN HALLANAN: Is there any further discussion of the interim report pr esented by the Synthetic Liquid Fuels Committee?

(There was no response.)

CHAIRMAN HALLANAN: If not, it willbe received and transmitted to the members of the Council.

Gentlemen, we have completed our agenda for today's meeting. Is there any new business?

MR. HARDY: Mr. Chairman, I do not like to be on my feet so frequently, but it occurs to me that we who have all received a copy of the so-called Paley Report, should make some recognition of that report. If I may, I would say in my opinion it is a notable contribution to a study of the natural resources of this country, and I am wondering if we couldn't show some recognition to Mr. Paley and the members of his committee who I think prepared a report that has done us some good.

Would it be in order to take some recognition and show them our appreciation?

CHAIRMAN HALLANAN: I know nothing in our rules that will not allow you to express a commendation, if you so desire.

MR. HARDY: I would like to move this Council authorize the President or the Secretary to write a letter on behalf of this Council, commending them on their report that they have compiled, and thanking them for their contribution to the study of the natural resources of thecountry in the form of the report that they have pr epared.

CHAIRMAN HALLANAN: You have heard Major Hardy's motion. Is there a second?

(The motion was seconded.)

CHAIRMAN HALLANAN: Allthose in favor signify by saying "Aye". Cotrary, "No."

(The motion was carried.)

CHAIRMAN HALLANAN. Gentlemen, the next meeting of the Council would come during t he latter part of October. If there are no suggestions to thecontrary, that will be the time.

The Chair recognizes Mr. Majewski who moves that we now adjourn. All in favor indicate by saying "Aye".

(Whereupon, the motion was carried, and at 4:30 o'clock p. m., the meeting was closed.)

End CL

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