

# TRANSCRIPT OF PROCEEDINGS

In the Matter of:

NATIONAL PETROLEUM COUNCIL MEETING

WASHINGTON, D.C.

Date: February 26, 1953

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NATIONAL PETROLEUM COUNCIL MEETING

WASHINGTON, D. C.

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Room 5160,  
Interior Department Building,  
Thursday, February 26, 1953.

The Twenty-Eighth Meeting of the National Petroleum Council was convened at 10:00 o'clock a. m., Mr. R. G. Follis, Chairman, presiding.

CHAIRMAN FOLLIS: Gentlemen, the meeting will please come to order.

The secretary will call the roll.

MR. JAMES BROWN: Mr. Anderson? Mr. Baker?

If there is someone in the room as an alternate for a member, as I call the member's name, would you be kind enough to rise and give me your name for the record?

Thank you.

Mr. Anderson? Mr. Baker? Mr. Max Ball?

MR. BALL: Here.

MR. JAMES BROWN: Mr. Munger Ball?

MR. MUNGER BALL: Here.

MR. JAMES BROWN: Mr. Barton? Mr. Benedum?

MR. BENEDUM: Here.

CHAIRMAN FOLLIS: Mr. Benedum, would you please stand?

Mr. Benedum is a new member of the Council, President of the Hiawatha Oil & Gas Company.

We welcome you to the Council, Mr. Benedum.

(Applause)

MR. JAMES BROWN: Mr. Bergfors?

MR. BERGFORS: Here.

MR. JAMES BROWN: Mr. Blaustein?

MR. BLAUSTEIN: Here.

MR. JAMES BROWN: Mr. Blazer?

MR. BLAZER: Here.

MR. JAMES BROWN: Mr. Boyd? Mr. Brazell?

MR. BRAZELL: Here.

MR. JAMES BROWN: Mr. Bridwell?

MR. BRIDWELL: Here.

MR. JAMES BROWN: Mr. Brigance?

MR. BRIGANCE: Here.

MR. JAMES BROWN: Mr. Bruce Brown?

Mr. Russell Brown?

MR. RUSSELL BROWN: Here.

MR. JAMES BROWN: Mr. Burns?

MR. BURNS: Here.

MR. JAMES BROWN: Mr. Coleman?

MR. COLEMAN: Here.

CHAIRMAN FOLLIS: Mr. Coleman, would you stand, please?

Mr. Coleman is President of the National Stripper Well Association. We welcome you, Mr. Coleman.

(Applause)

MR. JAMES BROWN: Mr. Colley?

MR. COLLEY: Here.

MR. JAMES BROWN: Mr. Cowden?

MR. COWDEN: Here.

MR. JAMES BROWN: Mr. Crocker?

MR. CROCKER: Here.

MR. JAMES BROWN: Mr. Cummins?

MR. CUMMINS: Here.

MR. JAMES BROWN: Mr. DeGolyer?

MR. DeGOLYER: Here. ?

MR. JAMES BROWN: Mr. Donnell?

MR. DONNELL: Here.

MR. JAMES BROWN: Mr. Dow?

MR. DOW: Here.

MR. JAMES BROWN: Mr. Warwick Downing?

MR. DOWNING: Present.

MR. JAMES BROWN: Mr. Wesley Downing?

MR. WESLEY DOWNING: Here.

CHAIRMAN FOLLIS: Mr. Wesley Downing, would you please stand? Mr. Downing is President of the Independent Oil Men's Association of New England.

Mr. Downing, we welcome you to the Council.

(Applause) *Here*

MR. JAMES BROWN: Mr. Drake?

MR. DRAKE: Here.

*Wesley Downing*

MR. JAMES BROWN: Mr. Duke? Mr. Dunnigan? Mr. Endacott?

MR. ENDACOTT: Here.

MR. JAMES BROWN: Mr. Fisher?

MR. FISHER: Here.

MR. JAMES BROWN: Mr. Follis?

CHAIRMAN FOLLIS: Here.

MR. JAMES BROWN: Mr. Foster?

MR. McCONNELL: E. V. McConnell, alternate for Mr. Foster.

MR. JAMES BROWN: Thank you.

Mr. Fox? Mr. Gernert?

MR. GERNERT: Here.

MR. JAMES BROWN: Mr. Graves? Mr. B. C. Graves?

MR. B. C. GRAVES: Here.

MR. JAMES BROWN: Mr. B. I. Graves?

MR. B. I. GRAVES: Here.

MR. JAMES BROWN: Mr. Hallanan? Mr. Hamon? Mr. Hanks?

MR. HANKS: Here.

CHAIRMAN FOLLIS: Mr. Hanks, would you stand, please?

Mr. Hanks is President of the South Penn Oil Company.

We welcome you, Mr. Hanks.

(Applause)

MR. JAMES BROWN: Mr. Hardey? Mr. Hargrove? Mr. Harper?

MR. HARPER: Here.

MR. JAMES BROWN: Mr. Hartman? Mr. Hilts? Mr. Holman?

MR. HOLMAN: Here.

MR. JAMES BROWN: Mr. Hulcy? Mr. Jacobsen?

MR. JACOBSEN: Here.

MR. JAMES BROWN: Mr. Jennings?

MR. PHELPS: Alternate for Mr. Jennings, Thomas W. Phelps.

MR. JAMES BROWN: Thank you, Mr. Phelps.

Mr. Johnson? Mr. Charles Jones? Mr. Mason Jones?

Mr. W. Alton Jones?

MR. W. ALTON JONES: Here.

MR. JAMES BROWN: Mr. Kayser?

CHAIRMAN FOLLIS: Mr. Paul Kayser?

MR. JAMES BROWN: Mr. Keck, Sr.

MR. JOHNSON: R. E. Johnson for Mr. Keck.

MR. JAMES BROWN: Thank you, sir.

Mr. Lawton? Mr. Leach?

MR. LEACH: Here.

CHAIRMAN FOLLIS: Mr. Leach, will you stand, please?

Mr. Leach is President of The Texas Company.

We welcome you.

(Applause)

MR. JAMES BROWN: Mr. Lovejoy? Mr. Lynch?

MR. LYNCH: Here.

MR. JAMES BROWN: Mr. Lyons? Mr. McCollum?

MR. COSGROVE: J. J. Cosgrove for Mr. McCollum.

MR. JAMES BROWN: Thank you.

MR. JAMES BROWN: Mr. McDowell?

CHAIRMAN FOLLIS: Mr. McDowell, will you stand, please?

MR. JAMES BROWN: Apparently he is not here.

Mr. McGowen? Mr. Maguire?

MR. FALCK: Edward Falck for Mr. Maquire.

MR. JAMES BROWN: Thank you.

Mr. Majewski?

MR. MAJEWSKI: Here.

MR. JAMES BROWN: Mr. Marshall? Mr. Mattei? Mr. Mosher?

Mr. Nielson?

MR. NIELSON: Here.

MR. JAMES BROWN: Mr. Niness?

MR. NINESS: Here.

MR. JAMES BROWN: Mr. Nixon? Mr. Nolan?

Mr. O'Shaughnessy? Mr. Parten? Mr. Payne? Bryan

Payne?

MR. BRYAN PAYNE: Here.

MR. JAMES BROWN: Mr. William Payne?

MR. WILLIAM PAYNE: Here.

MR. JAMES BROWN: Mr. Pogue? Mr. porter?

MR. PORTER: Here.

MR. JAMES BROWN: Mr. Pyles?

MR. PYLES: Here.

MR. JAMES BROWN: Mr. Reitz?

MR. O'HARA: Don O'Hara for Mr. Reitz.

MR. JAMES BROWN: Thank you.

Mr. Richardson? Mr. Ritchie? Mr. Robineau? Mr.

Robinson?

MR. ROBINSON: Here.

CHAIRMAN FOLLIS: Mr. Robinson, will you stand?

Mr. Robinson is President of the Consolidated Natural Gas Company.

We welcome you.

(Applause)

MR. JAMES BROWN: Mr. Rodman? Mr. Rowan? Mr. Scott?

Mr. Shannon?

MR. SHANNON: Here.

MR. JAMES BROWN: Mr. Skelly?

MR. FREEMAN: John S. Freeman for Mr. Skelly.

MR. JAMES BROWN: Thank you, Mr. Freeman.

Mr. Spencer?

MR. SPENCER: Here.

MR. JAMES BROWN: Mr. Streeter? Mr. Taylor? Mr.

Thompson? Mr. Tollett?

MR. TOLLETT: Here.

MR. JAMES BROWN: Mr. Vandever?

MR. VANDEVEER: Here.

MR. JAMES BROWN: Mr. Violette? Mr. Vockel?

MR. VOCKEL: Here.

MR. JAMES BROWN: Mr. Warren? Mr. Wescoat?



MR. WESCOAT: Here.

MR. JAMES BROWN: Mr. White?

MR. WHITE: Here.

MR. JAMES BROWN: Mr. Wilson?

DR. WILSON: Here.

MR. JAMES BROWN: Mr. Wrather?

MR. WHALEY: Floyd Whaley for Mr. Wrather.

MR. JAMES BROWN: Thank you. Mr. Wright?

MR. WRIGHT: Here.

CHAIRMAN FOLLIS: Gentlemen, I want to first express the regrets of Mr. Hallanan that he is not able to be here. I imagine you have all heard about the airplane accident he had some days ago, when his plane hit one of these invisible down drafts and threw him up to the ceiling and then down on the arm of his chair and very seriously injured his back. I talked to him yesterday, however, and he said that he was coming along faster than the doctor had anticipated, that he had come downstairs for the first time yesterday, and that the doctors have assured him that there will be no permanent effects. However, I gather that he will be laid up for some time, and he is very disappointed that he can't be here at this meeting, which is the organization meeting, and at which we hope to see the new Secretary of the Interior.

I might say also that I talked to the new Secretary this morning, and, due to a call he has had to the White House,

he will not be able to get here until a quarter of two. So I would suggest, if it meets with the pleasure of the Council, that we adjourn at twelve o'clock, and plan to reassemble at one-thirty, at which time we should have the bulk of our agenda over, but be here to receive the Secretary.

If that meets with your approval, I will plan the program that way.

I thought that perhaps the Council might authorize me or might like to authorize me to send Walter a wire expressing our regret at his not being here and our sincere hope that he will be recovered and back soon.

CHORUS: I so move.

CHAIRMAN FOLLIS: All those in favor, please say "Aye."

(General Response: "Aye.")

CHAIRMAN FOLLIS: Opposed?

(No response)

CHAIRMAN FOLLIS: We will prepare such a wire and express the unanimous wish of the Council that that be done.

Now we will have the Report of the Secretary and the Treasurer.

MR. JAMES BROWN: In view of the fact that we are already into the 1953 period, the year of this Council, and we haven't reported on the 1952 activities, I will have to split my report into two parts. I will first give you the results of the year 1952.

Our receipts, including contributions, and the results received from the publication of the book on Productive Capacity, totaled \$113,074. Our total disbursements during the year '52 were \$110,146. We started out for the year with \$7,280. That resulted in our winding up the year with \$7,998. We were able to maintain our reserve intact, which was \$65,000.

However, starting out this year, for the first two months, up to and including today, our receipts from outside were \$71. We transferred from reserves \$6,000. Our disbursements, so far this year are \$19,926. So we have the large sum of \$452.88 left in the general fund. That knocks our reserve fund down to \$59,000.

I might say that we had an 65 thousand dollar budget last year. I suppose I have spent money illegally, but somehow or other, I hope you approve.

CHAIRMAN FOLLIS: May we have a motion to receive the report of the Secretary and Treasurer?

(The motion was made, seconded, and unanimously carried.)

CHAIRMAN FOLLIS: Now, gentlemen, this being the organization meeting, we must elect the officers and the Agenda Committee and the Appointment Committee for this calendar year.

I would like to appoint a Nominating Committee, consisting of Mr. Max Burns, Mr. Lee Wescoat, Mr. William T. Payne, Mr.

Glenn Nielson, Mr. Sam Mosher, to meet and propose a slate for nominations.

Would you gentlemen retire and do that at this time?

I would like to ask Mr. Lee Wescoat to act as Chairman of that committee.

Now, gentlemen, is Mr. Littell here?

MR. LITTELL: Yes, sir.

CHAIRMAN FOLLIS: Mr. Littell, will you report on the Use of Radio and Radar Committee?

COMMITTEE ON USE OF RADIO AND RADAR

F. W. LITTELL, CHAIRMAN.

MR. LITTELL: Mr. Chairman, the report on the use of radar and radio in the industry is progressing at a favorable rate. All of the subcommittee work has been done. The final report is in its second draft, and we anticipate about six more weeks' work before the report is in its final form and ready for submission. If there are any questions on the work of the committee, I would be very happy to answer them.

CHAIRMAN FOLLIS: Are there any questions?

If not, this is a progress report?

MR. LITTELL: Right.

CHAIRMAN FOLLIS: Thank you.

Now can we have the report of the Agenda Committee?

Mr. Jacobsen?

REPORT OF THE AGENDA COMMITTEE OF THE NATIONAL  
PETROLEUM COUNCIL - A. JACOBSEN, CHAIRMAN.

MR. JACOBSEN:

(The report follows:)

CHAIRMAN FOLLIS: In view of the fact that this report is just being distributed, and most of you gentlemen probably have not had a chance to read Mr. Warren's letter before, with your permission I will read it now.

(The letter referred to is as follows:

Gentlemen, I move that the Agenda Committee's report be accepted.

(The motion was duly seconded.)

CHAIRMAN FOLLIS: Is there any discussion?

If not, all those in favor, please say "Aye."

(General Response: "Aye.")

CHAIRMAN FOLLIS: Opposed?

(No response)

CHAIRMAN FOLLIS: So ordered.

Now, Dr. Robert Wilson has some comments on industry's expansion of refining capacity.

Are you prepared to make those?

COMMENTS ON INDUSTRY EXPANSION OF REFINI

CAPACITY - DR. ROBERT E. WILSON

DR. WILSON: Yes.

(The report is as follows:)

CHAIRMAN FOLLIS: Does anyone have any question he would like to ask Dr. Wilson?

Doctor, we appreciate that. It was very interesting.

Mr. Rodgers, are you prepared to give your report on synthetic liquid fuels?

REPORT ON SYNTHETIC LIQUID FUELS PRODUCTION

COST - W. S. S. RODGERS

MR. RODGERS: Mr. Chairman and gentlemen:

(The report is as follows:)



MR. WILSON: Those cost figures include profit, of course?

MR. RODGERS: Yes.

A little later I will show you how the cost would go up if the industry would want a return. As to each per cent, you could interest nobody in that.

(The report continues as follows:)

That is signed by the committee.

CHAIRMAN FOLLIS: Do you move your report, Mr. Rodgers?

MR. RODGERS: Well, I am not a member any more.

(The motion was duly made and seconded)

MR. BLAUSTEIN: What depreciation rates were used?

Regular, or rapid?

MR. RODGERS: They certainly weren't accelerated, Mr. Blaustein. I think you could say regular. You would have to get the depreciation rate pretty high on this sort of equipment.

How about it, Mr. Kemp?

MR. KEMP: Twenty-five per cent.

DR. WILSON: Which isn't enough.

MR. RODGERS: No. This, in my opinion, is a very fair study of the thing. And I call particular attention to how the costs increase as the return on the investment goes up.

CHAIRMAN FOLLIS: Is there any further discussion?

It has been moved and seconded. All those in favor, please say "Aye."

(General Response: "Aye.")

CHAIRMAN FOLLIS: Opposed?

(No response.)

CHAIRMAN FOLLIS: It is so ordered.

MR. RODGERS: Mr. Chairman, I have one more thing.

Now, this is my opinion only. I have not had a chance to

have a meeting of the committee, but I think this committee's work is increased, and I believe the committee ought to be discharged. I feel that it is only a matter of a year or so when the subject is going to pop up again. Maybe it will pop up at the next meeting. But it seems to me that you would then want to reconstitute the committee and start all over again. So, as Chairman of the Committee, but not with the concurrence of my committee members, I would recommend that the committee be discharged.

MR. WILSON: I so move.

(The motion was duly seconded.)

CHAIRMAN FOLLIS: It has been moved and seconded.

All those in favor, please say "Aye."

(General Response: "Aye.")

CHAIRMAN FOLLIS: Opposed?

(No response)

CHAIRMAN FOLLIS: It is so ordered.

" I think I would be expressing the united opinion of the Council in expressing to Mr. Rodgers our appreciation for this work. It is one of the most comprehensive and important things that the Council has done, in my opinion. It has been thoroughly done. It has been done with great thought. And to me, it is a crowning final work of a very distinguished career that Mr. Rodgers has had in the Council.

Mr. Rodgers has been a member of the Council, as you know,

from its inception, has been a leader, has contributed in many ways, and we sincerely regret that he has found it necessary to resign and leave this group. "

(Applause)

MR. RODGERS: Mr. Chairman, I want to say something there: Don't give me the credit or the committee. This subcommittee has just done a vast amount of work, including technical people from a dozen or more companies. They have pulled together and just done a magnificent job. As far as the main committee is concerned, all we have done is approve what they have done.

MR. MAJEWSKI: There ought to be a law passed that young fellows like Mr. Rodgers ought to be prohibited from retiring and enjoying life. I mean, men qualified as he is, ought not to be permitted to depart into the Elysian field so soon.

MR. JACOBSEN: I would suggest an amendment to the motion that he be prevented from retiring and enjoying life. I think the law should only be to prevent him from retiring. He can proceed to enjoy life any way if he wishes.

MR. MAJEWSKI: I accept the amendment.

CHAIRMAN FOLLIS: I see Mr. Wescoat has returned. Maybe, Mr. Wescoat, you have a report for the Nominating Committee?

## REPORT OF THE NOMINATING COMMITTEE

L. S. WESCOAT

MR. WESCOAT: Mr. Chairman and gentlemen: Pursuant to the democratic processes, your committee met, discussed the available candidates, and offer in nomination:

Chairman: Walter S. Hallanan; Vice Chairman, R. G. Follis; Secretary-Treasurer, James V. Brown.

The two committees which are named by the Council:

First, for the Agenda Committee, we nominate:

A. Jacobsen, Chairman; Hines H. Baker, Max W. Ball, Russell B. Brown, J. Frank Drake, B. A. Hardey, W. Alton Jones, B. L. Majewski, J. Howard Marshall, A. C. Mattei, L. F. McCollum.

And on the Appointment Committee:

Frank M. Porter, Chairman; J. S. Bridwell, J. C. Donnell II, B. Brewster Jennings, J. Sayles Leach, N. C. McGowen, E. E. Pyles, M.H. Robineau, Roland V. Rodman, Reese H. Taylor and L. S. Wescoat.

I move that those names be placed in nomination, that the nominations be closed, and further move that the secretary be asked to cast one ballot for the election of the nominees as reported.

DR. WILSON: Mr. Chairman, I am very much surprised that the committee would jump on a man when he is down by nominating Walter Hallanan. In order that we may object before he has a chance to object, I second the motion.

CHAIRMAN FOLLIS: All those in favor, please say "Aye."

(Unanimous vote)

CHAIRMAN FOLLIS: I might say it places me in an embarrassing position, gentlemen, that I have never expressed my appreciation to the Council for the several times I have been elected Vice Chairman. You have never put me to work, and I didn't think it was appropriate for me to say anything. But now that you have put me to work, I do want to express my appreciation for the confidence that you have shown in me. Even though I am following behind a chairman who does not require any support, I sincerely appreciate, deeply appreciate, the honor and the confidence you have shown me.

Thank you.

(Applause)

Now, Mr. Wescoat, I hate to call on you so soon, but would you report for the Submerged Lands Committee?

#### REPORT ON SUBMERGED LANDS PRODUCTIVE CAPACITY

L. S. WESCOAT

MR. WESCOAT: Mr. Chairman and gentlemen, your committee had hoped to have a complete report available for this meeting this morning. However, there was additional technological data required, which is not presently ready, and therefore we are making this report in the interim period.

As indicated by Mr. Rodgers, while we had a very fine committee appointed to consider this matter, the real work

was done by the two subcommittees, headed in California by Floyd Bryant with Ernie Pyles as Vice Chairman, and in the Southwest by Emerson Chester and his associates, Mr. Carter Magnolia. Their associate and representative from every unit in the industry who had any knowledge with respect to off-shore operations, was included, and they have done a very fine job.

It is a relatively short report, in the absence of the technological aspects, and with your permission, I will read it.

(The report is as follows:)

MR. WESCOAT: Mr. Chairman, this is an interim preport. It is incomplete. Technically, I don't know whether the committee still continues to exist, or whether action by this body, if so desired, is required in order to continue the studies which have not been completed with respect to the technological aspects.

CHAIRMAN FOLLIS: It would seem to me, as an interim report, the committee would go on and complete their final report without any action from the Council.

MR. WESCOAT: The Council, of course, is reconstituted each year, and I don't know. That is the question I am asking, whether or not we require additional authority, or if the Council wishes us to continue to make that additional study.

CHAIRMAN FOLLIS: What is your pleasure, Mr. Chairman?

(Motion to continue to make additional study was made, seconded, and unanimously carried.)

MR. WESCOAT: I move the adoption of the report.

(Motion was duly seconded.)

CHAIRMAN FOLLIS: All those in favor, please say "Aye."

(General Response: "Aye.")

CHAIRMAN FOLLIS: Opposed?

(No response.)

CHAIRMAN FOLLIS: So ordered.

Now, is General Johnson here?

General, are you prepared to report?



For the benefit of the new members, General Johnson is Executive Secretary of the Munitions Board, and as such is responsible for procurement of petroleum supplies for the Armed Services. I know you will be interested in his report.

#### MILITARY PETROLEUM REQUIREMENTS

BRIGADIER GENERAL ALFRED H. JOHNSON, USAF, EXECUTIVE  
SECRETARY, MUNITIONS BOARD.

GENERAL JOHNSON: Mr. Chairman, members of the Council:

I might correct my job assignment slightly. I am the Chairman of the Munitions Board Joint Petroleum Committee and the Chief of the Office of Petroleum Programs in the Munitions Board.

As such, I have no direct responsibility for actual purchases of petroleum. My main responsibility is planning and general policy guidance and contact with other Government agencies to assure the availability of adequate petroleum supplies to carry out Department of Defense plans. And as such, I work in close cooperation with the Petroleum Administration for Defense and other agencies of the Government.

Today I will confine my remarks primarily to our planning responsibilities and what we are interested in.

First, I want to express the appreciation of the Department of Defense for the continued cooperation of industry, and particularly the Petroleum Administration for Defense and their industry representatives.

I think it might be well to mention a few things that the Department of Defense are interested in currently. Mention was made, during the early part of the meeting, of adequate production reserves and refinery reserves. Personally, from my observations, I am not satisfied with the adequacy of current production or refining reserves in the western hemisphere. I probably never will be. So you can take that for what it is worth.

But we need, and must maintain, adequate reserves to take care of any possible emergency. Now, I am not sure how we can do that, but we certainly support any program which is aimed at increasing those reserves.

We have been, in the Department of Defense, and I am sure will be, interested in continuance of the Voluntary Agreement and the Foreign Petroleum Supply Committee. I say I am of the opinion that we will continue to be interested in those agencies. We have supported them in the past, and I am sure we will in the future.

We consider such an organization, or a suitable alternate organization, essential in order to obtain equally effective industry cooperation, administration, and advice that we have received in the past.

We are interested in the continued assistance of industry in training our personnel, so that we can improve our efficiency and economy in our operations in the petroleum

field.

In that connection, I want to express the appreciation of industry, to date, in giving us that assistance; and to those companies that have promised to assist us in the future. I am sure you will be called upon for more and more assistance as time goes on.

In that connection, I would like to mention the general trend in petroleum consumption in the Armed Forces. Petroleum consuming equipment is now being delivered to the Armed Services at a rate of about 4.2 to 4.3 times what the pre-Korean rate was. In comparing current rates with a year ago, they are about 1.5 to 1.7 times what they were a year ago. That is, tanks, ships, aircraft, are being delivered at those rates. The rates are not decreasing. Petroleum is being delivered, and its products are being delivered, to the Armed Forces at a rate of 1.5 times, in dollars, what it was a year ago.

From an over-all standpoint, the Department of Defense purchases of petroleum have gone up, by year, from 500 million approximately, slightly under, to a current rate of approximately 900 million, and in two more years will reach, I am sure, about one and a quarter billion per year.

DR. WILSON: Barrels?

GENERAL WILSON: Dollars. Still a small percentage of the output. But we in the Department of Defense are

concerned about running our petroleum business on an efficient and economical basis, and the training of people who can do that will be part of your job.

We are concerned about the future status of the Petroleum Administration for Defense, just reading it in the newspapers. We don't know, but I assure you that we don't think that the job of the Petroleum Administration for Defense is finished. We depend upon them for a number of factors, a lot of help, in the conduct of our plans and current operations.

I might mention, last but not least, that we are still concerned, and vitally concerned, about the production facilities for aviation gasoline. We know we don't have sufficient to meet an emergency.

I will be glad to answer any questions.

Colonel Brown of the Armed Services Petroleum Purchasing Agency will go over the current purchasing situation with you.

Thank you very much.

CHAIRMAN FOLLIS: Thank you, sir.

Gentlemen, we have with us today, Mr. Ralph Trigg, who is Assistant Director of Production of the Office of Defense Mobilization.

Mr. Trigg is also Acting Administrator of the Defense Production Administration, and for two years was Assistant

Administrator of Program and Requirements, which involves the allocation of critical materials and the establishment of goals for the expansion of industry.

I know that you will be very much interested in Mr. Trigg's remarks.

Mr. Trigg?

(Applause)

REMARKS OF RALPH TRIGG, ASSISTANT DIRECTOR

OF PRODUCTION, OFFICE OF DEFENSE MOBILIZATION.

MR. TRIGG: Mr. Chairman and members of the Council, thank you very much for asking me over here. I think that if we get an opportunity to talk with members of the industry such as yourselves, or any industry that we are concerned with, it is a great deal of help to us. And as I told Mr. Warren when he asked me to come over here, I would be glad to talk to you a few minutes and try to answer any questions that you might have. So I would be very happy to, after I have concluded with what I will say, I will be very happy to try to answer any questions you may have on your mind.

But as the Chairman said, one of our principal jobs in the past has been the allocation of critical materials to the petroleum industry and to other industries across the country in connection with the defense effort.

We have endeavored to put all of the materials into the petroleum industry that we could possibly get into it in

terms of oil country tubular goods and other things and in order to get as much oil produced as we could possibly get produced, reserves discovered, and so on, for the simple reason that there is no one that is tied in with this defense effort in Washington, to my knowledge, that doesn't realize full well what the implications are if we don't have sufficient oil or oil reserves in case we had an all-out war. You heard what General Johnson had to say in connection with their concern as to your problems so far as petroleum is concerned.

We have endeavored to establish goals or objectives to be reached that are in line with the possibility of actually realizing those objectives, at the same time meeting the demands that we see down the road ahead of us.

You heard General Johnson say that they were concerned about the future of the Petroleum Administration of Defense. Well, so are a lot of us, as far as that is concerned. And what I think probably you would like to hear from is: Where do we go from here? What do we do, in so far as what we have been doing; and what sort of an organization do we have to continue the good work that the Petroleum Administration for Defense has carried on here in Washington, under the able leadership of the present Administrator, Deputy Administrator Warren, and his predecessor, Bruce Brown. And they have done a grand job, and the people who work for them in representing

the petroleum industry and what its needs are, in fitting it into this over-all effort.

But as of now we take our course, naturally, from the policy determinations that have been made at the very highest level, and if you will go back and reconstruct in your mind a minute what the President had to say in his State of the Union Message before the Congress, he made some reference to the control situation in general and dealt specifically with a number of items, one of which was the termination of product and material controls.

Now, he indicated there that we, naturally, had to have some sort of a control program or necessary legislation which would be submitted to the Congress at the proper time to continue, essentially, the military AEC program. If you were to interpret his words in the narrow sense, it certainly would mean that we have to have any type of program, a controlled program, in order to continue the military AEC program.

Now, I don't know of anyone around here that is particularly interested to continue controls for the sake of continuing them. There must be an easier way of making a living than sitting around here trying to administer something that is distasteful not only to you people and other people in the industry but also to those of us who have to fuss with them every day. But, anyway, we have a law under which we are

operating. We have policy declarations from the Hill. We have policy declarations from the White House. And we try to fit our operations into that.

So we have assumed that, come July 1, there must be, before that time even, worked out some sort of a program, and a request submitted to the Congress for necessary authority to continue in operation the Military AEC program.

You know and I know very well that a military program is no good without defense supporting programs, such as the one that we are concerned with here, the petroleum program, under the direction of the Petroleum Administration for Defense, the electric power program, this, that, and the other program.

In this connection, in the organization in Washington, we have got some fifty-odd delegate agencies, including a number of industry divisions of the National Production Authority, that have some part or interest in this defense effort. And to each and every one of them, their work is just as important in terms of the full mobilization effort, as the work of the military, or the work of the Atomic Energy Commission, or any one else. So the decision has got to be made, and made soon, as to what we have after July 1 in terms of any sort of a program to continue the necessary goods or materials flowing into these defense-supporting programs that I classified as the Petroleum Program in that



category.

I can say to you that there hasn't been any final decision as of now, but it is being discussed at the very highest levels, and certainly the Department of Interior, under which this Administration operates, is well represented in that body. What will finally emerge in the way of a request to the Congress for the necessary legislation is not yet determined. But we know that everybody wants to get back to a free economy, so to speak, as fast as we can. The movement of steel and other materials that flow into your own program and others -- we would like to turn it all back as fast as possible to a free market. And as of now, the thinking is that certainly July 1 will be out of the control business and a lot of this, unless some unforeseen circumstance might happen that would cause to go in the other direction. It is not up to me to say finally what that is, but that is pretty much the thinking as of now, with, of course, the exception of the Military AEC program.

I don't know what position the military will take, other than what General Johnson has said, and that is that they are interested in what happens to PAD, what happens to your program, because it means a lot to them.

And, as I mentioned a minute ago, we have a lot of other programs, too.

But we have had some very knotty problems in the past in

Government and in the last several years in this town and throughout the country, and I have always found that when willing industry groups such as yourselves and others sit down with people of Government, they usually work out these knotty problems to the satisfaction of both. Not always do you get everything you want one way or the other, but I don't think you can find a healthier climate in which to approach the situation than one such as you have here, where you have an industry group that is vitally interested in not only your industry but as to what happens so far as the Government is concerned.

We are all interested in making the country as secure as we possibly can.

We will continue through June 30th of this year the present allotment system, as you have already heard about, that the materials scheduled to flow to the industry will go on as scheduled, with any opened up space, so to speak, on the steel mills and other places; that is, copper and aluminum, flowing to whoever gets there and whoever the mills want to sell it to. But you have already had a program set aside for the second quarter that puts as much materials, just taking oil country tubular goods as an example, into that program as we can possibly put into it, based on the facilities that we have to roll the pipe.

<sup>u</sup>  
✓ Now, in addition to all of that, there are efforts being

made to expand all the processing facilities of the steel industry, and of course of the aluminum industry, and others; that down the road we will get more production as we go on. But certainly, through June 30th, your program stands as scheduled, and there will be no interruption, or serious interruption, in it, between now and that time.

U I think that the PAD has been pretty well satisfied with what we were able to work out, not only for the second quarter but for previous quarters. What we will do after that remains to be seen, as of now. And it isn't very much comfort to any industry group to have a person from the Government get up here and talk to you in terms that you can't answer specifically what the devil is going to take place down the road. But you can't. You can't always do it. And I would like, better than anyone, to be able to say to you: On July 1, we are going to do thus and so and you can plan accordingly. But all I can tell you is that the law runs out on June 30th, the one we are operating under now, and the general feeling is that it certainly needs some continuation of authority for the military AEC program, and we have got to give serious consideration to what happens to the Defense-supporting industry.

" I could probably ramble on for some time here, Mr. Chairman, and maybe not touch on what some people have in their mind, and with your permission, I will sit down and

give them an opportunity to ask whatever questions they have.

✓ CHAIRMAN FOLLIS: Thank you, Mr. Trigg.

Has anyone any question he would like to ask?

If not, we certainly appreciate your coming here and talking to us.

(Applause)

CHAIRMAN FOLLIS: One question from Mr. Warren.

MR. TRIGG: Mr. Warren wanted to know if there was anything yet decided on the third and fourth quarter advance allotment, in terms of whether we will cancel them or not. You probably saw a press release or read of one that came out from the Office of Defense Mobilization the first of the week, in which it said that we would give a lot of consideration and study to what to do for the third and fourth quarter with those advance allotments, and we are concerning ourselves with it right now.

I don't know. We can't say whether they will or won't, but I have a hunch we will be able to relax considerably on those, if it is any comfort to you, Ed.

CHAIRMAN FOLLIS: Are there any further questions?

Thank you.

Now, we have Colonel Brown. Colonel Brown is Executive Officer of the Armed Services Petroleum Purchasing Agency.

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

MR. BROWN: Mr. Chairman, members of the National Petroleum Council: It is always a great pleasure to meet with the members of the National Petroleum Council. In fact, I would like to emphasize just a little bit what General Johnson said when he mentioned the fact that we would not know what we could do if we would lose the use of PAD and also the fine cooperation which we have received from the members of this committee.

Our big problem, in so far as the loss of PAD is concerned, is just how we get product, number one, and movement of product, and components, and things of that nature, in order to make up the finished product, and then the job of cost accounting is one of the great ones we have, in so far as procurement of high octane fuels is concerned. We don't have the machinery established to handle that job, and it is a great source of concern to us at the moment.

So we are going to do everything we can to support a program of maintaining at least a part of the PAD organization.

During the fiscal year of 1953, the Armed Services Petroleum Purchasing Agency has placed upon the petroleum industry the job of producing the greatest quantity of military product since the end of World War II.

You are to be congratulated, your industry is to be congratulated, for its concerted efforts in attempting to meet this huge demand, which has grown quite great over the past couple of years. Other than on the West Coast, where we had continuous difficulty in purchasing all products, due to shortage of crude, the oil industry has been substantially successful in covering the military requirements for this fiscal year with the exception of high octane 150 and 145 fuel. It appears, however, from information which we have received from PAD that most of the demand for this production may be satisfied this year, although approximately 25 per cent of it will be incremental cost product.

We recognize the difficult problem that faces industry in producing this ever increasing military demand for high octane fuels. We further recognize that it is due to a shortage of allocation facilities, which take time to build and money to build.

As of today, for this fiscal year, we are still short 1,873,000 barrels of 150 and 145, and we have only got four months to go. So you can average that up and see that it is going to be an awfully tough job to fulfill that requirement in the next four months.

We are not still completely covered on that other product, on other items, but we foresee no difficulty in covering those requirements on delivery, as we require them

for delivery schedules. It is just a matter of going out and procuring them, more or less. They are available.

In an attempt to overcome the military high octane gasoline shortage, I have made many personal contacts with members of the industry in the past few months. I have been trying to encourage industry to construct additional allocation facilities, either through the use of a five year guarantee contract which Government offers, or on their own, without benefit of a facility contract. During these contacts, many companies expressed doubt as to the continuing demand for high octane fuel into the next few years, the next two or three years. This doubt seems to have been brought about through the impression that all military requirement would, in a very short time, be jet fuel, with not much high octane. This impression is probably understandable, because of publicity given to the build-up of the Air Force as stressed by the fact that conventional aircraft is rapidly being replaced by the jet. That is also true with the Navy.

It is true, gentlemen, that all tactical and strategic aircraft will be jet. But, on the other hand, let's remember that this jet force must be supported by large transports, which are still being built or are in the process of being built at present. It must be noted also that the transport aircraft currently under construction is larger than in World

War II, and that their heavier engines require 150 and 145 octane fuel.

This switch over to 150 and 145 increases the demand for alkylates approximately 25 per cent per gallon over that required to produce 100-130.

Historically, this trend towards heavier aircraft and demand for 150 and 145 has been under way since 1949, and this year we will procure approximately 40 per cent more than we did last year. It would appear from present military plans and aircraft production schedules that there will not be a level-off on this demand for high octane before fiscal year 1957 or 1958. Now, I said a level-off. This is predicated on a peace time build up of forces and certainly does not take into consideration the impact on the supply of this vital product in case of an all-out emergency.

In connection with transport requirements, as I was preparing this little presentation for the National Petroleum Council, I happened to look at a newspaper last week-end and I clipped this out. It says:

"Air Force orders production of turbine engine transports."

Well, of course, the turbine engine transport requires jet fuel, and this might give some idea of the trend of things to come.

The Air Force now may be planning to convert the transports



I have been telling you about jets. So, in order to clarify the question in my mind, because I have been in this planning business before I got into the petroleum, I talked with the staff members in the headquarters of the Air Force with reference to just what this would mean to our program. I explained to them that we had been trying to induce industry to go out and spend millions of dollars to build allocation facilities for the production of high octane fuels. And I got a lot of very interesting answers on this thing.

I talked to the people who knew what was going to happen.

I would like to dwell on this item for just a moment, because I realize that on the surface it might appear that these reports would replace reciprocal engine types of heavy transports. In time, this most certainly may be the case. But, gentlemen, it will not happen for many years to come. I base that statement on the following fact:

The first turbo-prop transport is not ready for acceptance. The order has just been given for it. When this turbo-prop transport is accepted, extensive tests will have to be made, and considerable modification will more than likely be required if it is accepted then. They may have to go back and manufacture another before it is accepted. This would normally require two years, and must take place before production of additional models can begin.

It will be many years before our transport force will

have a large number of turbo-type jet transports.

I would like to further mention that we are continuing to build reciprocal engine transport for tankers. Then there is the tanker fleet, which is required to refuel jet aircraft in mid-air, and which, by the way, will be quite a large fleet. I am sorry I can't give you the figures; they are astounding.

That fleet is being planned on the basis of continuing use of conventional types. This may change later, but if it does, it will be five or six years before they get into production on that type.

As B-29's and other types of bombers are replaced as strategic aircraft they will be converted to tankers for air refueling.

I am pointing all this out, gentlemen, so that you will understand that the need for high octane fuel is not going to be any less.

I would like to further mention to you that this turbo-prop type aircraft will augment the fleet; it won't replace it. You can see for yourself we are still operating war bombers in Korea, B-29's. It will take some little time before we get these planes out.

Now, another pertinent observation which I made while discussing the allocation project with industry representatives was that the military in most cases is not accepted

as a regular customer, a regular consumer, by industry, by much of industry, in your planning. This seems to be brought about by reason of the military cutback in requirements right after World War II, which creates some doubt that the military will have a continuing requirement in the future. I can understand that. I can appreciate why that would be considered in some cases.

I wonder if industry realizes that ASPPA will buy approximately \$9 million worth of petroleum this year. General Johnson brought that out in his talk. I would like to emphasize it again, because I think it is very important.

If each oil refinery was receiving its share of military business, it would represent approximately 7 per cent of its total production.

The ASPPA is the world's largest oil customer and should assume a position as such in industry's marketing plans. We ask that you include us in your planning, as you do your regular customers.

Another issue, which is not directly related to procurement, is the shortage of military stores. We have received many complaints from industry in connection with delays in lifting product; that is, as it is made available by the refiner.

Now, ASPPA has been trying for the past few years to keep pace with the military's great need for storage. As

you can understand, this huge increase in demand for product is going to further increase a rough problem on the storage needs, because we need storage in proportion to our product need for operating purposes. Our efforts have only been partially successful, and we are still in the market for several million barrels of storage. We are trying to lease storage. We would like to have commercials build it for us and lease it, under service contracts.

The problem of lifting product is going to confront us until we succeed in meeting most of this storage deficit. Please bear with us if at times these delays in lifting product do occur, because they will.

This lack of storage not only creates a difficult lifting problem in so far as industry is concerned, but it creates one of the greatest operating problems on resupply faced by the military today.

To further accentuate this problem, we must schedule, with the cooperation of the Military Sea Transportation Services, the biggest tanker fleet in the world. To meet this commitment on time, we must have adequate stocks in storage. As it is, we must depend on refiners not only to produce but to store much of this product for us until shipment can be made.

I think you know that we are working from hand to mouth on picking up your product as it is ready and trying to

load it on to ships for overseas.

Well, in the past, the petroleum industry has certainly met the challenge of supplying the military forces, which give us the assurance that the problems facing us now will be solved by the industry which you gentlemen represent. There is no doubt of the sincerity and patriotism of the oil industry. It has been displayed many times through the voluntary cooperation and outstanding team work that you have shown with the Military Department.

(Applause)

CHAIRMAN FOLLIS: Has anyone any questions to ask Colonel Brown?

MR. HOLMAN: May I ask a couple of questions?

You say that your bombers, reciprocal engine, like B-29's and so on, will eventually become transport planes and so on. What is the potentiality or what is the possibility of those planes using, say, a hundred octane rather than 150 or 125?

COLONEL BROWN: The B-29 does use 100.

MR. HOLMAN: Well, as they are converted -- ?

COLONEL BROWN: They will be used for air tankers; not for transports but for air tankers, you see, for air refueling.

MR. HOLMAN: Of course, as you know, 100 octane is much easier to squeeze out than 150 and 145.

COLONEL BROWN: That is correct.

MR. HOLMAN: I wonder if in that you have taken your con-

version factor fully into consideration?

COLONEL BROWN: You say: Have we taken the conversion factor into consideration? Very definitely. In fact, we have gone quite a step here in the last few months, in trying to conserve fuel, by even going down to 91-96, to use in some aircraft which normally operate on 100-130, to try to conserve alkylate. The Air Force is doing it right now.

MR. BLAUSTEIN: How do you conjecture how many years there may be this demand for the 150-145?

COLONEL BROWN: As far as I can see now there will not be a level-off on that demand; that is, it will continue to go up, until 1957 and possibly 1958.

CHAIRMAN FOLLIS: Any other question?

MR. BLAUSTEIN: May I ask another question?

Would the decline set in then, or is that merely a leveling off at that date?

COLONEL BROWN: It appears at that date a slight decline could start. It would be very slight, however, probably two or three percent or something like that. Then I think you might find a downward trend.

MR. BLAUSTEIN: A short decline beginning about when?

GENERAL JOHNSON: I probably should answer that question. I have furnished the manufacturers of aviation gasoline a detailed chart showing our forecast of aviation gasoline requirement for the Department of Defense up through 1963, and anyone

in industry interested in receiving that, if they will let us know, I will see that they get it.

MR. MAJEWSKI: The Colonel said they need two million more barrels of storage. One way of getting that storage, Colonel, is to make those leases for longer periods than one year. That is a pretty short pay-out on tankers.

Is there any opportunity to get a faster pay-out than a year lease?

COLONEL BROWN: You are so right. In fact, we can not deal beyond a year, because we deal with one year's funds. That has been one of the biggest bugaboos in dealing with the military for a long time, as you know. What we have done in a lot of cases, though, is to offer a heavier service charge for the first year, and then taking renewal options for the next year at lower prices. So if we do not renew, the builder of the storage will not lose very much, actually. He has almost got his storage paid for. But then it is to our advantage to take up our options for the following years in order for us to come out at a decent average on the costs. That is the way we are doing it now.

MR. MAJEWSKI: You won't get many tanks built on that kind of basis, if my arithmetic adds up.

COLONEL BROWN: Well, actually, we are getting them built. Our problem again is steel. We have a couple of million barrels right now that people are ready to build.

They have even gone so far as to have locations, and so forth, and they can't get the steel to build. So we are running into that type of problem.

DR. WILSON: What areas are you particularly interested in? What part of the country?

COLONEL BROWN: Well, coast-wise, generally.

DR. WILSON: Gulf or East Coast?

COLONEL BROWN: Gulf or East or West Coast, yes.

MR. JACOBSEN: The Colonel and the General mentioned there would be a decline in aviation gasoline consumption after 1957. I would like to mention that there will be a corresponding increase in the consumption of civilian gasoline, and the sum of the two gives a fairly constant prediction of consumption, which will be shown in the later chart today.

COLONEL BROWN: That is right. We have the civilian commercial airlines to consider on their increases.

CHAIRMAN FOLLIS: Mr. Duke?

MR. DUKE: Colonel, you speak of not having the ability to make more than a one-year contract. But how is it, for instance, that the MSTs has a revolving fund that entitles them, for instance, to make five year contracts and take that not out of their year to year budget --

COLONEL BROWN: That was a special act of the Congress.

MR. DUKE: It does not apply to you people?



COLONEL BROWN: It does not apply to our budget.

CHAIRMAN FOLLIS: Now, gentlemen, we have a very serious subject that we would like to bring out, and that is the budget.

Mr. Brown, would you outline the budget?

#### BUDGET

MR. JAMES BROWN: In preparing for this serious subject, I went over the details with Mr. Hallanan before he had his accident, and he felt that we should limit our budget this year through the amount which we had requested last year, and that is \$85,000.

As I reported earlier, we didn't live on that amount last year. There were a few extraordinary items that popped up after you approved of that amount last year. We are not contemplating that those things may recur. If they do, however, we will do our best to meet them, as we did last year.

So I ask for your approval of a budget for the year 1953 in the amount of \$85,000.

(Duly moved and seconded.)

MR. JACOBSEN: Mr. Chairman I think we are all pretty well satisfied and convinced that the National Petroleum Council as an institution is expected to continue.

I am wondering if we have any official assurance in that regard?

CHAIRMAN FOLLIS: Well I don't suppose we have official

assurance. I think we have very near it. But your point is that perhaps we should hold off approving the budget until we have a little firmer ground?

MR. JACOBSEN: Well, I don't necessarily feel that way, no, sir. I just was raising the question, because I know there was a lot of interest in the group, and speculation, and this was a little fishing expedition to see if I could get them the information.

(Laughter)

CHAIRMAN FOLLIS: I really believe that we would not be taking too much risk to approve this budget.

Would you like to move approval?

MR. MAJEWSKI: I would like to move approval, because if we are disbanded it is always nice to get a refund check.

(Motion duly seconded.)

CHAIRMAN FOLLIS: The motion was made and seconded.

All those in favor, say "Aye".

(General Response: "Aye.")

CHAIRMAN FOLLIS: Contrary?

(No response)

CHAIRMAN FOLLIS: One other item here that the secretary points out that I overlooked. That is approval of the minutes of the last meeting.

You have all received copies. May we have a motion to approve those minutes?

MR. DUKE: I so move.

(Motion was duly seconded.)

CHAIRMAN FOLLIS: It is moved and seconded.

All in favor say "Aye."

(Unanimously carried.)

CHAIRMAN FOLLIS: Now, gentlemen, it is a quarter of twelve.

We have completed our agenda with the exception of Mr. Warren's report. And I would suggest that we adjourn until half past one.

MR. MAJEWSKI: I move recessing until one-third.

(Motion was duly seconded.)

CHAIRMAN FOLLIS: It is moved and seconded.

All in favor?

(Unanimously carried.)

CHAIRMAN FOLLIS: So ordered.

(Whereupon, at 11:45 o'clock a. m., a recess was taken until 1:30 o'clock p.m., this same day.)

## AFTERNOON SESSION

(The meeting was reconvened at 1:30 p.m.)

CHAIRMAN FOLLIS: Gentlemen, the meeting will come to order.

15. " I have the pleasure of being able to introduce the new Secretary of the Interior, the Honorable Douglas McKay.

As much as we all wish that Walter Hallanan were here, and as much as I know he deeply regrets not being here, I must say I take some pleasure in this opportunity. Although we can't claim Douglas McKay as a Californian, we do the next best thing; we claim him as a leading citizen of the Pacific Coast.

" The Secretary has not only been Governor of Oregon during two terms, but in addition to that has been, for many years, a successful business man. He talks our language.

" Mr. Secretary, this Council was organized in 1946 to provide a means of maintaining consultation and advice between the oil industry and the government; and I think in that it has achieved a remarkable success, in a sense that it has pioneered the highest type of relationship between government and private business.

" During those years, at no time has the Government stepped beyond the relationship of looking to this Council for counsel and advice, and at the same time the Council has sincerely and strongly carried forth its duties and obligations

to advise the Government. That is demonstrated not only by the willingness of some hundred men from the four corners of the country to come to these meetings at the call of the Chairman, at the call of the Secretary of the Interior, but also by the work of the subcommittees of this Council. These subcommittees have handled many problems. They have been organized from literally hundreds of key men in the industry, who have given their time and have developed the problems that have been passed to them by Government. Those problems have been complex and have involved tens of thousands, perhaps hundreds of thousands, of man hours of work, and I have never heard at any time even a question as to the load of work, the time that would be required, or the effort that would be put out to do the job and do it to the best of the ability of the members of the industry.

" But I think the most important aspect of this Council has been the attitude that the members have shown in their sense of civic responsibility to this Government. This has never been in any remote sense a pressure group, nor has it even been an industry group in a narrow sense. It has been very definitely and very really a group of citizens who, because they are familiar with a certain phase of the economy, have been able to advise their Government, as citizens in the broadest sense. And, Mr. Secretary, this Council looks forward with enthusiasm to the opportunity that they will

have to serve you and to serve your associates and advise you and your associates in any problems that you may wish to call on us for.

" Gentlemen, I present Mr. Douglas McKay, the Secretary of the Interior. <sup>11</sup>

(Standing applause)

~~REMARKS OF THE HONORABLE DOUGLAS MCKAY,~~

SECRETARY OF THE INTERIOR

16,

\* SECRETARY MCKAY: Mr. Follis and gentlemen: Thank you for that very cordial introduction. And just for your information, Mr. Follis, my neighbor to the South, both of my grandfathers and one of my great-grandfathers and a grandfather were all down in California in 1849 looking for gold. And the situation was just the same as it is today. It is vastly over-rated!

~~(Laughter)~~

" They didn't find an ounce. So they came back to Oregon, for which I have always been thankful, and settled down. They died poor there also. But if you are going to die poor, it is much more delightful to die up in our wonderful climate, and where they always have a good burial ground for you.

" I am very happy to be with you today. I have only been on this job a little over thirty days, so I don't know all the answers. But I must say Ed Warren has been giving me

a liberal education. Every time I look up, he is in my hair.

~~(Laughter)~~

Q You are a good salesman, Fellow.

A Of course, I have always said that about the oil companies. As to educating the youngsters, I think the best job is one in a Standard Oil service station, but—"Don't stay too long." The basis of all business experience is delivering papers or serving in a Standard Oil station. They are the roughest.

Q But I have been very interested in this program. Under the tutelage of Ed Warren, I have learned a little bit about it. I am very happy to endorse such a program.

A The President, yesterday morning, at a meeting I attended of people interested in soil conservation and conservation generally over in his office, at nine o'clock, made this statement, which I think was very significant:

"If I could express the theory of our type of Government in one word, that one word would be 'co-operation'."

I thought that was a good statement. I had never heard him say that before. Because the time has come today, in these critical times particularly, when we need cooperation between people.

Q Now, we have no class distinction in America, but we have

developed pressure groups. I happen to be an automobile dealer. I pay my dues to the NADA, just as you fellows pay your dues to your organization, to the United States Chamber of Commerce, and all the rest. And we get to be largely pressure groups. But in this case, where the industry sends in people as advisers to the Government in the technical branches, I think it is a wonderful thing.

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As an automobile dealer, I have had my arm twisted by my boss, the General Sales Manager, to belong to the Army Ordnance Corps. I was in the Infantry. I never had any use for the Ordnance, because they never had the shells there when we needed them. But for the last ten or twelve years, we have been just browbeaten into paying our dues. And it was a good deal, because in the present set-up of national defense, when we become mechanized and everything depends on petroleum and internal combustion motors, and now jets, it is highly cooperative, and we must have the cooperation of industry, because the Army can't necessarily know all there is to know about manufacturing.

So I think that was a good thing, as far as the automotive industry goes, to have cooperation within the Army Ordnance Corps and the automobile business. And now, of course, everything depends upon petroleum.

Oh, here is the bright young man, sitting right down here. I have listened to him, too. They took me down when I



first got here, one night. I was sleepy, but I stayed awake, and it was very interesting the things they told me about the petroleum of the world. It was off the record, so I won't repeat anything. Don't get nervous.

But I say again I welcome the opportunity to participate in any meeting. I am going to leave, so you can do your business. But if there is anything at all the Secretary of the Interior can do for this organization, I shall be most happy to do it. Because I think the whole future of the country depends upon, as the President so aptly put it the other day, cooperation among our people."

~~Thank you very much.~~

(Standing applause)

CHAIRMAN FOLLIS: We now have the program of the PAD, which will be presented by Mr. Warren. We are going to ask Mr. Warren to take over and present his program, and any witnesses or representatives that he would like to have come on. Ed?

~~REMARKS OF J. ED WARREN, IN INTRODUCING~~

*Introduction of*  
PETROLEUM ADMINISTRATION FOR DEFENSE PERSONNEL.

17. MR. <sup>Ed</sup> WARREN <sup>detail:</sup> "In presenting the PAD's report to you today, I know that the thing that is uppermost in most of your minds is, "What is the future of PAD?" I think you can understand, from what was said by Ralph Trigg and also General Johnson, that there is considerable concern in Government about the

future of PAD.

We do know that we now have, as an administrative policy, a return of most of the vital functions from a control situation to one of enterprise.

PAD, even before the steel strike, had a decontrol committee that worked on the possibilities of decontrolling materials. When the steel strike came on, why, we had to wait, and it was December again before we reinstated the functions of that committee.

When Fowler, Henry Fowler, was head of ODM, he also had a committee on decontrols, and our advice to him then was: If other defense-supporting industries were not given special preference, we felt the petroleum industry, with the increase in materials supplies, could, with a few exceptions, like high quality plate, go ahead and compete and get along on its expansion programs without the need of controls.

On the matter of prices, we have had a policy here that we only entered into price problems when they were immediate and far-reaching and had a direct relation to supplies. However, when it was announced that the law would expire on April 30th, and in view of the fact that in California and also in the Penn Grade area, there were some pending applications on which we had been asked to make recommendations, we did write to Arthur Fleming, the new Acting Director of ODM, and gave our expressions on that.

" I hope, in this period of adjustments and transitions from a controlled economy to an economy of free enterprise, that the industry will show some restraints in some of the areas that should get us over this hump. I am speaking of oil country tubular goods as one of them. I hope it will not be the practice to go out and refill inventories too fast, so that this transition won't be a shock and will be taken care of gradually.

" I think also in areas of short supply there ought to be consideration given to the effect on the over-all program. I think it was brought out by Mr. Trigg this morning that there is concern at top levels about what the hazard in dropping controls on this would be, and the impact it might have on the general economy. So if the industry generally will consider those things before making changes, or drastic changes, I think it would maybe help prevent getting back into the situation we just go out of.

" Now, there is one other general over-all administration policy that I think it is very important to have as regards petroleum, and I think General Johnson brought it out. There is not going to be any slackening of the national defense effort. The hazards of war are probably just as strong right now as they were when Korea came in. And President Eisenhower has made statements along that line. It will be a matter of methods, and the mechanisms that are needed to

get the munitions of war to keep the defense effort at a high level.

" There isn't any final determination, as brought out by Ralph Trigg, on just what will be done, by materials. That will be settled by Congress and probably by the Administration. President Eisenhower said that critical materials for the military and the Atomic Energy Commission programs will still be under control, and there are still some other areas that might be considered.

" Before I pass any further, I want to say that my term of office here would normally close on the first of June. And I am not in this thing for a career. I expect to get out. And in connection with what I say next, I would like to have you bear that in mind.

" It does seem clear to me, with this high level of defense preparedness that is going on, that petroleum is going to be very, very important in that picture, and I think that there is going to have to be some type of liaison organization, and maybe some to take care of some of the critical problems, until they get out of the way.

" I am certain of this: With the product demands that are thrown by the military on the industry, there has got to be cooperation, as brought out by Secretary McKay, to take care of some of those jobs. We have had many of them in the last year. It has been a revelation to me. There have been

problems on jet fuels, and problems on av-gas, where we have gone directly to people in the industry, and they have taken care of the problems without the necessity of our using directive powers. I wanted to point that out, that since we are changing the economy here, the responsibility of petroleum in the defense effort won't slacken any. And I think from that standpoint the National Petroleum Council becomes far more important than it was in the period after World War II. I think you will probably be having studies to make along that line.

“Also, if PAD should go out, or be limited to specific problems, at the time of June 30th, we ought to have another body like the Military Petroleum Advisory Board, with technologists that can handle these special problems on product specifications and war planning, that will be necessary. In event of a war, it is also, I think, of critical importance that they should be ready to move in an organization like PAD or PAW to take care of that chore of petroleum mobilization in case of all-out war.

“So we are not at this time able to tell you specifically what we think ought to be done in the way of an organization. The PAD organization a year ago had 338 people. We have cut down now to a little less than 200, and we are continually making studies of the necessity of the people that are in the organization and the jobs that they perform and will continue

to make those curtailments right up until the time that the Defense Act passes out of the picture, or as modified, depending on the will of Congress.

" We have only got two orders on the books, PAD orders No. 3 and 4, and both of them pertain to aviation gasoline. On March 1st, PAD Order No. 2, a restriction order on natural gas, was rescinded, and all the other orders on natural gas have been taken out just as soon as the need for them had passed.

" In introducing to you staff members, each one of them will talk somewhat along the line of specific problems we think would be important and interesting for you to hear. One of them is the matter of legislation, and I am going to ask Bill Simon to tell you what the proposals on legislation are. Many of you know what those are, but I thought maybe a brief summary on that would be of help."

Mr. Simon?

#### RESUME OF DEFENSE BILLS

WILLIAM SIMON, ASSISTANT DEPUTY ADMINISTRATOR

AND GENERAL COUNSEL, P.A.D.

MR. SIMON: Mr. Chairman, members of the Council, guests: These remarks should be prefaced by the phrase "As Mr. Trigg said this morning."

At the last meeting of the Council, I discussed what then appeared to be the future prospects of legislation,

concerning wage, price, and material controls. Doing so today is perhaps a more difficult task, because the interval of time that has elapsed, and the closeness to the approaching terminal date of <sup>the</sup> present legislation, would indicate that we should be able to make a more definite prognostication at this time than was possible last December. But the fact is that the planning for future legislation dealing with these controls has not yet crystallized.

While I do not believe that anyone yet knows what form such legislation will take, we can isolate the factors that are reasonably certain from those questions that are still wholly undetermined.

Existing statutory authority to control wages and prices expires on April 30th. Prices for most commodities and for all wages have already been decontrolled. It is not likely that any legislation dealing with controls will be passed by the Congress prior to April 30th. Therefore, on May 1, there will in all probability be no statutory authority for controls over prices or wages.

It is doubtful whether the Congress will pass any legislation in the period after April 30, and before its adjournment, authorizing the reimposition of controls over wages and prices. However, this will probably depend at least to some extent on what happens to the price structure of the economy in the next sixty to ninety days.

Two legislative proposals for wage and price controls are now pending before the Congress. Senator Capehart, Chairman of the Committee on Banking and Currency, which handles all such legislation, has introduced a bill which would permit controls after July 1, 1953, on materials, wages, and prices, but only after the President had consulted with a national advisory committee, to be appointed for that purpose, and consisting of business men, farmers, labor leaders, and representatives of the public.

The President would not be required to follow their advice, but he could not impose those controls, in the absence of war, without prior consultation with that council, and a publication by him of a statement of his reasons for imposing controls.

There is no substantial support in the legislature for that proposal, and the administration has not indicated that it will support the proposal.

The second legislative proposal, also introduced by Senator Capehart in the Senate, with a somewhat similar proposal having been introduced in the House by Congressman Moulder, would give the President authority to impose a ninety-day freeze of wages and prices if, in his judgment, economic conditions required that action. The theory behind this proposal is that it might be utilized by the President to stop a run-away inflation, until such time as the Congress



could enact appropriate legislation to deal with the problem.

The objection currently made to standby controls is that it is not now possible to legislate for an emergency that may occur only at an unknown future date from economic causes that cannot now be anticipated.

The theory of the ninety-day freeze proposal is to permit the President to halt inflation, caused by some unknown emergency, but only for so long as would be required for the Congress to pass legislation to appropriately deal with the specific problems. It is contemplated that Congress would then pass, within the 90-day period, legislation tailored to fit the precise needs of that then existing emergency.

In the absence of a marked increase in price levels during the next few months, I believe that the only legislation dealing with wage or price controls that the Congress is apt to pass this year, is that giving the President authority to impose a ninety-day freeze over wages and prices if, in his opinion, a national emergency requires such action.

Such legislation will probably require an across-the-board freeze of prices and wages at their then current levels, with perhaps authority to the President to exempt specific commodities if he finds that the application of controls to those commodities would create or accentuate shortages and thereby adversely affect the national economy.

There is, however, substantial opposition even to this

limited type of statutory authority.

With respect to controls over materials, the situation appears to be equally uncertain. Present statutory authority to allocate materials expires June 30. It appears quite certain that the present controlled materials plan, under which steel, copper, and aluminum have been allocated, will expire on June 30, even though legislation is passed before that time extending the authority to allocate materials.

In his State of the Union Message, President Eisenhower said that it would be necessary to continue priorities for direct military and AEC purchases of materials. I think it is safe to assume that legislation will be passed this year that at a minimum will authorize the President to grant priorities for materials for direct military and AEC needs.

Furthermore, it is urged by many that it will be necessary to grant spot assistance to selected construction projects that are found to be essential to the mobilization program.

For example, a new atomic energy facility may be dependent upon electric power from a privately owned utility in the process of construction. The completion of the utility power plant would be as important to the defense program as the construction of the atomic energy plant itself. There may be akylation facility construction projects essential to the mobilization program that might also require priorities assistance to insure their completion.

Speaking only for myself, there seems to me to be but a relatively little current need for the use of priorities assistance beyond those areas after June 30. But I hasten to add that it may well be, as others vigorously assert, that certain critical materials, such as nickel, are so scarce that they must continue to be allocated. It is even argued by some that there may be defense-supporting industries that are so important to the defense program that materials should continue to be allocated to those industries across the board. The adoption of this course of action, however, would lead to many difficulties, for each of the many, many defense supporting industries would no doubt claim to be as important to the defense program as any other industry.

These decisions have not as yet been made.

A strong argument can be made for the view that Title I of the Defense Production Act should be extended in its present form. Title I of the present Act contains two very short paragraphs, giving the President virtually unlimited authority to grant priorities and to allocate materials to the extent he deems it appropriate for national security. It is possible that this broad authority to the President to allocate materials is appropriate and will be extended by the Congress; but this can only be because it is not otherwise possible to spell out in legislation all of the critical bottlenecks concerning materials that may have to be broken during the

next year in the interest of the mobilization program. And such broad legislation should, and no doubt will, be accompanied by assurances to the Congress, in public hearings, from the administrators charged with carrying out the mobilization program, that this power will not be used except in limited and essential areas, and that full scale allocation of materials will not be reimposed on the industrial economy in the absence of a substantial acceleration in the mobilization program.

In summary, while it is not possible to forecast with any degree of certainty the form which defense legislation may take in 1953, it seems reasonably certain that authority to grant priorities and to allocate materials will be given to the President by the Congress in some form and to some extent. Since Defense Mobilization legislation will no doubt be enacted this year, it is not unlikely that it may contain provisions providing the framework for skeleton defense agencies.

Furthermore, it is probable, but not so likely, that legislation will be enacted this year authorizing the President to freeze prices and wages for ninety days, across the board, and with only limited exceptions, whenever he determines such action necessary to halt inflation, and in order to give Congress the authority to pass specific suitable legislation.

While any wage or price control legislation is still

uncertain, I think that if such legislation is passed, it will contain no authority beyond the ninety-day freeze.

Thank you.

(Applause)

MR. MAJEWSKI: Mr. Chairman and Mr. Warren, can I interrupt for just a minute the regular sequence here?

The Secretary of the Interior is a fast worker, and I would like to have you convey my sentiments to him. I was going to do it personally, but I never saw such footwork. He is a grand fellow, but I was going to exchange a few ideas with him on behalf of the small business man in the Council that does his part in the defense effort. And that is the only reason we are here, legally.

I would like to have you, Ed, take to him a message from the smaller interests represented in the oil industry, and I spoke to quite a number of them at lunch today, that we are grateful that this will continue this effort on the part of the large and the small in the oil industry, in the interest of national defense, as the National Petroleum Council. I hope you do convey that to him, because we wanted, some of us, to tell him that today, very briefly.

And then point out this to him. You can't do it with such a fast movement; not even the old curmudgeon could absorb as fast. Today there were two reports in that synthetic fuel production costs report. That is the result of the

utilization of a tremendous manpower and intelligence or brain resource, not anywhere else available in the world legally except through an effort such as this one. I do hope that that is called to his attention and that he reads the summary conclusions and is guided by them.

Also, I want to mention at this time something else about the report. Very informal it was; I wish it was a little longer. I would say it was comments on industry expansion of refining capacity. I think that has to be given more study, Mr. Warren. I am getting formal now, because I am about to make a request.

(Laughter)

It is fine to pat ourselves on the back, to create this tremendous reserve of producing capacity, refining capacity, transportation, all in the interest of national defense. It is fine to have a study on submerged lands productive capacity. Those are all good, for everybody in the industry and for the people of the country.

I think it is now high time to have a study in the interest of national defense on how properly to utilize economically and efficiently this reserve that we have created, with our money, not with Government money but with our money, that is about to engulf us.

Now, when I get heated up like this, Mr. Warren, I am serious, because in my part of the country there are a lot of

people that will be unable to continue to support the defense effort because this reserve capacity that has been created is eating us up. The natural and normal and economic result in the oil business has always been that when you create this reserve capacity it is used, and it is used wastefully, harmfully, and against the national interest.

So, in the absence of the Secretary, would you mind taking to him a suggestion that he ask the Agenda Committee of the Council to study the effect of this reserve capacity and its utilization, wastefully and beyond defense needs, to threaten to engulf if not all of the oil industry in the United States certainly important geographic segments thereof? And I would like to have you -- this is from the floor, as one of the members of the Council -- ask him that he inquire for a study group to see what happens, now that we have created this reserve capacity in the interest of national defense. I can see that there is only detriment and harm, ill effect, to the national defense effort, that is going to come forth from the kind of use we are making of this so-called reserve capacity.

CHAIRMAN FOLLIS: You are making that as a suggestion?

MR. MAJEWSKI: Yes, sir. I can't make it as a motion. I think Mr. Warren ought to convey that. I think there are a lot of people here, who, if they would express themselves, would second the motion. But I think that is something for

them to cogitate on. And I think it should come from there, so that our Agenda Committee can properly study the subject.

I want to do this legally, like these other reports that are of such tremendous value. I think you ought to know whether this machine is a juggernaut or a Frankenstein's monster that will hurt the defense effort in the long run.

MR. RUSSELL B. BROWN: If I could make a motion legally, I would do so.

CHAIRMAN FOLLIS: You can not make a motion, but you can make a suggestion.

MR. MAJEWSKI: Thank you for letting me make a suggestion. I will try and stay within the bounds.

MR. WARREN: I will pass that on to Secretary McKay, Barney.

I want to introduce now Mr. C. E. Davis, Associate Deputy Administrator, who is going to talk about some of the specific problems that we have in our PAD setup. Mr. Davis?

CURRENT PROBLEMS AFFECTING PAD ORGANIZATION AND  
RESPONSIBILITY -- C. E. DAVIS, ASSOCIATE DEPUTY  
ADMINISTRATOR, P.A.D.

MR. DAVIS: Mr. Chairman, members of the Council, Senator Majewski: Your Chairman has referred to public servants on this program as witnesses. Well, people as close as we are to Capitol Hill are somewhat allergic to that term "witnesses."



But whether I am a witness or not, it is still apparent to you, from the discussion that has already preceded, that under conditions as they are now, being a witness for or against is a very difficult decision to make.

I would like to talk briefly about some of the problems that we think confront PAD in the event of a dissolution of the organization.

Before I start on that, I would like to revert to the very kind remarks of General Johnson and Colonel Brown this morning about the place that PAD has played in the relationship with the Military departments of Government; and at the risk of being accused of starting a mutual admiration society, I would like to say, on behalf of PAD, that without the close cooperation and understanding that exists between the Munitions Board and its various segments and the Petroleum Administration for Defense, our job would be absolutely impossible. And I think I can say without contradiction that our relations have been an example for interdepartmental relations in Washington in so far as the Petroleum Administration is concerned, a good example.

We don't know yet, as you have heard, what is going to happen to us. We don't know whether we will shrink or not shrink. We don't know whether we will dissolve or not dissolve. And there is no magic in the calendar date of June 30th as to the operations of some of the important things

that PAD has been wrestling with.

I know most of you have, in the last few weeks, as members of the Council, been thinking about PAD and its place in the scheme of things and what its future is likely to be, the same as we have.

I thought it might be helpful, to clarify your thinking as well as ours, without attempting to define what decisions will eventually be made, if I point out a few of the principal subjects, where June 30th is of no significance.

You have already heard about the first one, and undoubtedly the most important from the standpoint of the over-all mobilization effort, and that is the shortage of aviation gasoline. I won't dwell on the aviation gasoline position, because Mr. Jackson is going to cover that in a little more detail later this afternoon. But there is a necessity to increase aviation gasoline manufacture, marginally and wherever possible, over the next two years. That problem is going to be with us for some time. And what happens to the Defense Production Act, or materials controls, has absolutely no bearing on the productive capacity and the availability of military aviation gasoline.

In connection with legislation, however, we have these two particular orders, PAD Order No. 3, and PAD Order No. 4, which are issued on the basis of the Defense Production Act authorities granted to the Petroleum Administration,

Those two orders have been extremely important in obtaining the production of aviation gasoline that we have gotten. PAD Order No. 3 we conservatively estimate has accounted for approximately 5,000 barrels a day of production which would not have otherwise been made. PAD Order No. 4, which, as you recall, limits the T.E.L. content of commercial aviation gasoline to 4 cc's, accounts for approximately 7200 barrels a day. Well, that 12,000 barrels a day is a very substantial figure in our production program. Without defense legislation there is no authority for those orders. We would, of course, have to find some alternative means of maintaining that production, which may or may not be possible to the fullest extent of the available production.

5 We have also, as a third point, a continued need for further expansion of alkylation capacity. As you know, we are short of alkylation capacity to meet the requirements of an all-out war, and additional construction is necessary if we are to be prepared for that emergency in aviation production.

A fourth thing that will continue without respect to June 30 is the determination and costing of incremental production of aviation gasoline. Now, approximately 55,000 barrels a day of aviation gasoline is manufactured by various alternative incremental means of producing gasoline at higher than normal cost. There is no reasonable likelihood of that gasoline production continuing unless there is some means of

directing it, organizing it, and costing it.

Five, the accelerated tax amortization program is not directly connected with the Defense Production Act. It is a part of the Treasury bills. It probably will be continued as an available tool for the further expansion, necessary expansion, of defense facilities. Provisions must be made for the handling of that particular phase of our business after June 30th.

Six, provisions for handling unexpected product shortages that arise from various causes, and which can not be anticipated. We know from time to time, due to circumstances beyond our control, a crisis is reached in a particular product for the military. We have had at least three in the last year, outside of aviation gasoline. They will probably rise from time to time regardless of the general over-all position of petroleum production, so that there will have to be some means of dealing with spot problems of shortages of petroleum products that would, if not dealt with, cause considerable difficulty in the industry and reflect on the industry's ability to meet the Government's mobilization needs.

The seventh item that you might give thought to is the operation of voluntary agreements. You have heard General Johnson say that their work is considerably handicapped by the present status of suspension of the voluntary agreement in connection with foreign operations. There are other areas

where voluntary agreements have been used, although not frequently used. Where they have become necessary, it is essential that mechanisms be available to deal with them.

Eight, if there are any types of material controls beyond strict priorities for Military and Atomic Energy, and the so called area of defense-supporting industries, there must be some provision for providing that a reasonable and fair share of whatever is in short supply is available for the petroleum industry. We have said that if decontrol is feasible and possible, the petroleum industry can take their chances with all other industries. We have also said that if there is going to be an encroachment on materials by industry generally in the category of defense-supporting industries, in all likelihood the petroleum industry will have to be represented.

Now, there is a group of things which I have listed under the ninth category, and that deals with long-range planning study for emergency programs in case of war. We have in PAD been making periodic studies of wartime supply and demand under conditions that are established by discussions with the military. There will be no change in that type of requirement, so long as we are in the present international political environment.

There are plans being made, of course, for war time allocation of petroleum products, in order that there would be

a blueprint available so that the Petroleum Administration, or whatever organization is doing the job, can proceed on short order with a distribution of short petroleum supplies for civilian use. Those plans are not completed and probably will be continued until completion, because of the need for that type of program.

Various agencies in Washington are concerned with the problem of facility security, and plans are under way to deal with the valuation of existing facilities from the standpoint of their priority in the defense picture, and plans are also being made for rehabilitation of facilities in case of attack. Those plans will continue, and undoubtedly petroleum will be vital in the final program for that type of security.

Another item in the general planning stage is that of programs for the most effective use of the capacity of the industry; and that applies particularly to pipe lines and refineries, where, in case of an all-out emergency, there should be certain plants that would reckon with the possibility of additional transportation being required for the East Coast and additional refining capacity to be devoted to products other than those now produced in that capacity, changes in operations that would meet the military requirement.

The last general heading would be to give consideration to the probability of a dispersion of facilities that are now carried out by the Petroleum Administration for Defense, in

the event mobilization continues and we are not available as an organization to deal with these various problems which do not recognize a calendar date.

One of the very earliest and most important problems in the formation of PAD was to establish its independent category, its vertical type of organization. It would not take very much misuse or failure to recognize that importance for these various things to find their way into various other places in Washington, where they would be dealt with directly by the petroleum industry and by other agencies.

That summarizes briefly some of the important things, as I see it, that must be considered without regard to the present stage of legislation or executive decision. These problems have nothing to do with that. I think everybody should think about them. I am not advocating or suggesting any particular type of organization. I think in a number of these things I have mentioned there are ways that they could be successfully handled without PAD. Others I see no ready solution to in so far as practicality and efficiency are concerned.

I think that about concludes the remarks I wanted to make. If there are any questions I would be glad to try to answer them.

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

(Applause)

DR. WILSON: I would like to add a few words about one of the points that was mentioned by Mr. Davis, namely, the desirability of dispersion, more dispersion than we have in the petroleum industry. We have a tendency to concentrate. You can almost always figure that any given increment or refining capacity had better be put aside, because you can always use something you already have. But I think that has gone too far in our industry.

6

I happen to be a member of a special committee studying hemispheric defense against the atomic bomb, and while most of that I can't discuss, there are two or three things I can say.

One of them is, simply, to support our present President against our former, there is no question but what the Soviets have the atomic bomb and that they could do us tremendous damage in this country, and that the atomic bomb is a bigger bomb than it used to be.

I feel very definitely that the industry and other industry should take seriously this need for greater dispersion in planning our new facilities.

Now, we can't pick up existing capacity and put it somewhere else. That is just too expensive. But when we consider expansion, I do think that very, very serious consideration should be given to putting it at different locations and away from where present refinery congestion exists.



MR. WARREN: Are there any further questions of Mr. Davis?

As brought out by Mr. Davis, we have had one responsibility, and that is the review of projects for accelerated tax amortization. These projects are approved, however, by ODM, the Office of Defense Mobilization, which used to be DPA. I thought it might be of interest to you to have Mr. George Gibson, who is our Finance Counsellor, give you a short discussion of the situation on accelerated tax amortization.

Mr. Gibson?

ACCELERATED TAX AMORTIZATION

21- GEORGE GIBSON, FINANCE COUNSELLOR, (P.A.D.)

MR. GIBSON: "Mr. Chairman, members of the Council, and guests: Accelerated tax amortization is one of the few incentives that the Government has given for expansion in facilities. As Dr. Wilson mentioned, it was the only incentive found necessary for the refinery expansion.

"The basis for accelerated tax amortization is not the same as the basis for the various control laws. Accelerated tax amortization is permitted or is made possible by Section 216 of the Revenue Act of 1950, which amends Section 124(a) of the Internal Revenue Code by permitting amortization in 60 months of the cost of an emergency facility in lieu of normal depreciation rates.

"That law does not have a fixed expiration date. In that

respect, it is unlike the Defense Act, and it is also unlike the Excess Profits Tax Act. The accelerated tax amortization, therefore, can continue either until Congress repeals Section 216 or until administrative or executive decision is made that no further expansion of facilities is needed.

" In some branches of industry, particularly some of the chemical industries, the certifying authority has made that decision, and no further certificates of necessity are being given for the building of certain chemical facilities. The President could also state that the entire defense program was met, and terminate all further granting of accelerated amortization.

"However, until that date, we have a duty to perform in acting as technical advisers to the Office of Defense Mobilization, which grants necessity certificates giving accelerated tax amortization.

"I don't know how long, and there is no indication of how long, the action will continue. ~~Congress has not taken up the subject in this Session.~~ There has been criticism of accelerated tax amortization in past sessions, but there also has been considerable support, and Congress has not taken the subject up yet and probably won't until it gets into the details of the tax act.

"The only change that has been made to date has been a transfer of authority from the DPA, which is now defunct, to

the ODM. But this transfer was accompanied by a transfer of personnel, so that policies and procedure remain exactly the same as they have been. Until there is a change in either the law or the policy of the certifying authority, and as long as we have the manpower available, we will act as technical advisers and make our reports and recommendations on each application.

' We also are required by the ODM to make reports and recommendations on amendments to necessity certificates giving accelerated tax amortization.

" These are quite important. There are two principal types. One is the amendment of scope. A certificate of necessity is valid only for the facility described in the certificate, and if the description is not correct, does not coincide with the facility as actually built, the certificate is no good whatever. Therefore, if, in engineering and designing a plant, a facility is built which does the same job as that which was proposed, but which can't be covered by the same description, an amendment should be requested.

" There also are requirements in the certificates as granted for the start of construction within a fixed time of the granting of the certificate. The object of that requirement is to induce people to go ahead expeditiously. However, if the requirement is not lived up to, and if no amendment is requested, the certificate again is void and will

grant accelerated amortization. Therefore, if, in the course of engineering and building a plant, it was found that it can not be started within the time limits, an amendment should be requested.

" That is particularly important in the case of facilities costing over a million dollars, where they require the start of each substantial part of the facility. Under a million dollars, you can start any plant.

"As far as <sup>the petroleum</sup> ~~our~~ programs are concerned, the ~~petroleum~~ programs, all of our principal programs are still unfilled. We are still asking for new capacity ~~in most branches,~~ in all the branches of the industry, for which accelerated tax amortization has been granted in the past.

" We will continue to recommend accelerated tax amortization for such project, as long as we have the authority, and it exists.

" As for the future, we believe that accelerated tax amortization has been of great assistance in securing expansion, but we believe that when the excess profits tax is dropped, a great part of the need will be eliminated for special action, such as accelerated tax amortization.

" This is a personal opinion. It is my personal opinion that any further relief from the present rigid depreciation rates should be obtained not by a special administrative action such as accelerated tax amortization, dependent upon administra-

tive judgment and possibly discriminating between one company and another or one project and another, but rather through general modifications of the Internal Revenue Act. "

Thank you.

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

MR. DAVIS: I started to respond to Mr. Wilson's statement about dispersion a while ago, but I thought it would be better if we could ask George Gibson to outline briefly the provisions for dispersion under the present rules of tax amortization.

MR. GIBSON <sup>also outlined the provisions for dispersion under the present rules of tax amortization as follows:</sup> In granting certificates of accelerated tax amortization, one of the criteria is dispersion. That criterion enters only if the facility first costs more than a million dollars or involves more than fifteen per cent of the capacity of the industry, and also if it is a dispersible facility, in other words, not a pipe line or something that can't be moved or is already dispersed. And also, it only applies in the cases of new facilities. It does not apply in the case of an addition to an existing plant.

" However, if a new facility is built which can be dispersed, and which is not part of an existing plant, then the existing rules and regulations permit denial of accelerated tax amortization in facilities which are not dispersed, and they also permit the giving of a bonus in the shape of a higher percentage of tax amortization for a greater percentage of the

cost in facilities which are dispersed. We have both alternatives. "stop"

MR. BLAUSTEIN: You say the unit, though, has to represent 15 per cent of the capacity?

MR. GIBSON: No, that is a million dollars or fifteen per cent. The petroleum industry is principally caught by the million dollars, not the 15 per cent.

(Applause)

MR. WARREN: Mr. Harris Bateman, Director of the Materials Division. I have asked Mr. Bateman to review briefly some of the things with respect to the CMP plan. Mr. Bateman?

#### OUTLINE OF MATERIALS SITUATION

HARRIS BATEMENT, DIRECTOR, MATERIALS

DIVISION, P.A.D.

MR. BATEMAN: Thank you, Mr. Warren.

Mr. Chairman, members of the Council, and visitors: Ralph Trigg covered material controls very thoroughly this morning. I will duplicate some of his remarks. There are other points about materials supply that may be of interest to you, which I will comment upon.

As all of you are aware, a start has been made toward the decontrol of materials. Just how far controls will be relaxed is yet to be decided, but it is safe to say that there will be enough controls retained to see that the mobili-

zation program is carried out.

7 Steps taken so far toward decontrol have been few. A press release on Friday, the 13th of this month, from the Office of Defense Mobilization, announced the immediate open-ending of the Controlled Materials Plan. Orders to make this effective have since been issued.

In definition, open-ending allows anyone to buy without allotment any materials produced above and beyond those needed to satisfy outstanding CMP tickets, and to use these materials without restriction. In other words, if a manufacturer is able to produce more of an item than he has CMP allotments to cover, he is now free to sell the excess to anyone he chooses. However, very little additional material will be made available to the oil industry by this relaxation. Certainly, none of the short items, such as oil country tubular goods, steel plate, and stainless steel, will be available without tickets.

The February 13th announcement also froze second quarter allotments at their present levels, except for the needs of the Defense Department and the Atomic Energy Commission. Second quarter CMP allotments that have been authorized will remain in full force and effect. All basic rules and regulations that support the Controlled Materials Plan remain unchanged.

PAD will continue to accept PAD 26 applications for

new projects and will process PAD 15 applications for oil country tubular goods needed on wildcats and for emergencies, the same as in the past.

We are reviewing the regulations that affect the oil industry, and revising them to lighten the burden on operators where this can be done.

As an example, operators need not file PAD 26 LP applications for line pipe for the third quarter. Similarly, the amount of information required on projects now submitted on PAD 26 supplement forms has been considerably reduced.

Another revision raises the dollar limit on purchases of machinery and equipment, so that fewer delivery orders need to be sent to PAD for approval, and no information copies are to be forwarded for lesser purchases.

What I have said covers the period up to next June 30th. The big question is what will happen after that date. For one thing, we know that advance allotments in the third quarter are being studied by the Office of Defense Mobilization to determine which of them will cover scarce and critical items essential to the national defense. When these have been identified, it is expected that all other third quarter allotments will be cancelled. Such action is expected in the next few weeks.

Another thing we know is that a materials allotment and priority plan, to be effective July 1st, has been drafted and



is under discussion now. All along we have been told that the military and Atomic Energy Commission direct programs will be reviewed and determined at a level of demonstrated need, and priority and allotment privileges extended, so that such programs are insured. We know that nickel is in extremely short supply, and we believe it will continue to be distributed to all users somewhat as it is now. We also feel that new regulations after June 30th will be so written that essential defense supporting projects needing critical items will be able to obtain them through special help. What shape this will finally take, and to what extent defense supporting industries will be given special assistance, is yet undetermined.

At this time it is not planned that there will be formal third quarter program allotments of material for industry generally.

Manufacturers have been advised that they need not send in applications for materials needed to produce their product. PAD will not prepare a formal program for the oil industry for the third quarter.

We have also notified oil producers not to send in applications, form PAD 17, for third quarter allotments of oil country tubular goods.

We shall continue to accept PAD 26 applications for new projects, even though they start after June 30, but it is

anticipated that some change in this will be made in the next few weeks.

CMP tickets that have been issued to oil operators for advance quarters probably for the most part will be cancelled. But, in the meantime, in my opinion, allotments should be handled as in the past. Once a mill accepts a rated order, it is doubted whether the cancellation of the tickets will change the delivery in most cases.

Business is operating at a high level generally, and this is reflected in large backlogs of orders at the mills. It does not appear that the easy situation in steel that was forecast last fall for the second quarter of this year will materialize. Consequently, the supply situation continues tight on many items necessary to the petroleum industry, and a number of these will be short to some degree after June 30. However, it is felt that the transition from controls to a freer economy should be made by the oil industry with minimum disruption.

Thank you.

(Applause)

MR. WARREN: Any questions of Mr. Bateman?

Thank you very much, Mr. Bateman.

We have had considerable discussion in PAD and before the Council and in the industry concerning oil country tubular goods. We have worked with NPA on joint committees

in trying to determine capacity.

I would like to ask Mr. Emmett Vaughey, who is the Director of Production, to give you a little review on the oil country tubular goods situation.

OIL COUNTRY TUBULAR GOODS

EMMETT VAUGHEY, DIRECTOR,

PRODUCTION DIVISION, P.A.D.

MR. VAUGHEY: Mr. Chairman, members of the Council, and guests: We issued a press release recently in an attempt to clarify to the oil industry the future supply availability of oil country tubular goods. Our supply data was based on this NPA report which we requested, the survey, to determine the anticipated production from three new seamless mills, together with expected new production from presently existing mills. This increased production from the existing mills would come mainly from new ingot steel production which would be supplied to the finishing mill space which is now idle.

We consulted frequently with NPA during this survey, and we checked their figures with ones which we possessed ourselves. We feel that their figures are reasonable, and as nearly accurate as possible.

In 1951, we drilled 44,826 wells. Translating tonnage into wells, we were forced to use foreign pipe, conversion, second-hand, and line pipe in approximately 7,000 of these wells.

In 1952, we had 300,000 tons less production, due to the steel strike. We drilled a thousand more wells, and we ended up by being forced to use costly casing on 17,500 wells, or approximately 36 per cent of our demand.

In 1953, according to trade journal estimates, that shows drilling of 46,500 wells. Incidentally, these estimates in the past two years have been less than one-half of one per cent in error.

The regular mill production will be able to supply approximately 37,600 of these wells, so that at least 9,000 of these wells will have to be supplied from the other sources. That is one idea of the relative position. Although better off than last year, it shows we are shorter in 1953 than we were in 1951 of our requirements.

Foreign inventories of conversion pipe are going to help this situation. At the present time, the operations as of today are about 10 per cent better than this time last year, but in trying to estimate the number of wells we will drill this year and the amount of tubular goods necessary, we have to keep in mind the drastic two months' shutdown we had last year on account of the steel strike, which I certainly don't anticipate and hope we won't have this year.

8

DR. WILSON: Why do you say this year will be shorter than last? I don't understand.

MR. VAUGHEY: Shorter in supply, Doctor. Actually, there

are about eight hundred more wells expected to be drilled according to trade estimates.

DR. WILSON: Yes, but you said last year we had a steel strike and this year we don't. So this year why should we be shorter than last?

MR. VAUGHEY: No, I said we were shorter than in 1951. It will be an improvement over 1952 of approximately 8,000 tons. But we will be shorter in supply than we were in 1951, when PAD was still in existence.

DR. WILSON: Why is that?

MR. VAUGHEY: The reason is the increased number of wells. There were 44,000-odd in 1951, and in 1953 there are approximately 2,000 more wells anticipated. The depth factor increases the tonnage. And actually there is very little increased production expected from the mills in 1953 over 1951.

The critical shortage in tubular goods should begin to ease in the latter part of 1953. The reason for this critical change is that that is when the new production is actually scheduled to show up. In other words, we haven't had a great picture of change of production from 1951 through '53 except in the loss in production in '52.

However, going through 1955 we will reach an increase in production of 50 per cent over our production in 1951.

With the normal usage of second hand casing, we should be

able to drill in the neighborhood of 50,000 wells per year, without the necessity of high priced foreign and conversion tubing.

According to all presently foreseeable estimates of drilling activity, this should allow the oil industry to operate under normal supply conditions of oil country tubular goods for the first time that I can remember since World War II.

In these figures we have also taken into account the fact that domestic production will have to supply the usual part of foreign requirement. A comfortable margin has been allowed for this factor, however, and this also is a safeguard to our defense program.

Our second quarter allocations have been made, both primary and supplemental. Inventories, after a sharp drop, due to the steel strike, are about equal to what they were this time last year. They are in better balance in regard to operating.

We are having less calls from distressed operators in our office, although some are still in evidence. However, we received 150 less applications in the second quarter on drill pipe, and that led us to believe that our supply situation was easing. Apparently there are quite a few operators who thought that at noon time, January 20th, controls were going to end, and they didn't bother to make allocations. As a consequence, now we are actually receiving more emergency requests for drill pipe than we have ever received since PAD

was inaugurated. This same situation may obtain in about 30 days in tubular goods, because we had far less allocation in the second quarter for that. However, in the over-all, I still believe that both situations are slightly improved.

There is still definitely less demand for conversion, and it was our thinking that, considering the supply and demand picture for conversion, we could ask for immediate open-ending or decontrol. However, control mechanisms did not make this feasible, and we are continuing to issue tickets for the second quarter. We have told operators who desire conversion that if they find a deal and come in and apply for a ticket under any reasonable request we will give them their ticket, which is about as far as we could go toward open-ending.

We havenot issued tickets on all of the pipe which we have in field stocks, because we feel that the oil industry should go into the third quarter with a workable inventory, into the third quarter, and into decontrol. We hope that the supply companies continue to retain this balance.

We will continue to process wildcat allocation and distribute pipe for wildcat drilling through June 30th. As has been pointed out before, we really do not have any directive confirming it, but we do not anticipate allocating oil country tubular goods in the third quarter of 1953.

Thank you.

(Applause)

MR. WARREN: Do you have any questions of Mr. Vaughey?

The last man to appear for the PAD staff will be Mr. Jackson, Director of the Refining Division, who will talk about the military fuel supply position.

Mr. Jackson?

MILITARY FUELS SUPPLY POSITION

R. REA JACKSON, DIRECTOR, REFINING  
DIVISION, P.A.D.

MR. JACKSON: Mr. Chairman, lady, and gentlemen: I feel exactly like the acrobats on the vaudeville performances. You know, they used to have a short acrobatic act to conclude the performance. I assure you this will be short; I don't know how acrobatic.

The subject mentioned by Mr. Warren was military fuels, but I would like to, if I may, go one step beyond the discussion that General Johnson and Colonel Brown presented, and talk in terms, if I may for a moment, of total aviation gasoline.

Now, the top curve on that chart shows total requirements of aviation gasoline, and is based on no all-out war or all-out mobilization for the period being considered. The period begins with 1950 and extends through 1962.

DR. WILSON: Including commercial?

MR. JACKSON: Including commercial, export, and military.  
This is total.



Now, beginning in 1950, still with that top curve, the deliveries of aviation gasoline during the period January 1 through December 31st, 1952 were on the order of 128,000 barrels per day, increasing to 222,000 barrels per day, and the demand for 1953 is estimated to be 233,000 barrels per day. And you will note that there is a steady rise in requirements, a rather substantial rise in requirements, until 1955. There is a slight peak in 1957, and after that the demand is practically constant.

I would like to repeat what I said this morning, and that is that the reason that that line is practically constant is due to the fact that there is an increase in civilian aviation demand and a decrease in military demand; the two adding together to what I would call, for all practical purposes, a plateau.

9 That increase, though, doesn't really tell the entire story, because the percent of 115-145 that is required is also increasing, and that means there is more alkylate per barrel of aviation gasoline.

The purpose in showing that curve is simply to say this: that there will continue to be a demand for aviation gasoline. We are going to be short until the middle of 1954. We believe that by the middle of 1954, we will be able to supply the requirements. However, I must again emphasize that that does not cover any increase in the mobilization plans, other than

those that are now in effect.

We would like to have additional alkylate capacity, and we would like to ask you, if you will, to reappraise your refinery balances. There is, as I see it, no uniform answer as to whether an alkylation plant is indicated for industry as a whole. It has to be an examination of each individual refinery. And I would like to ask you, if you will, to reappraise your plants, and wherever you possibly can we would like to have an alkylation plant, and PAD would certainly welcome the opportunity to talk to you about it.

So much for aviation gasoline.

I would like to go to jet fuels for just a moment.

The figures shown here on jet fuels are for military use only, since the amount of jet fuels for civilian consumption have been so extremely small.

Now, we have a little short curve down there at the bottom that shows actual deliveries to the military during the period from January 1, 1950 to December 31, 1952.

During the year 1950, deliveries to the military amounted to only 20,000 barrels a day. In 1951, this figure increased 35,000 barrels a day, and in 1952 the military took 50,000 barrels a day.

Now, the little dotted portion on the end of the line there represents requests that have already been made on the industry.

You will note that the curve of consumption is starting up sharply, and it is beginning to slant upward, and the slope of the extension of that curve will depend upon how fast planes are delivered to the military. For that reason, we haven't tried to indicate on this chart any forward prediction. But I don't think it would be unreasonable to believe that within the next two or three years the consumption of jet fuels would approximate the total consumption of aviation gasoline.

That simply means that industry then will be called upon to provide the tankage lines and facilities that would be required to furnish jet fuels in that amount.

Now, at present, manufacture of jet fuels is comparatively easy. And while there has been some discussion on the possibility of using only straight-run fuels, that matter is still being studied and has not been decided. It is probably that the jet fuel which will be used will be, generally speaking, JP4.

That is all, Mr. Warren. Thank you.

MR. WARREN: Any question of Mr. Jackson?

(Applause)

I have been asked many times, and I know some of my associates have: Why don't you close up shop and go home?

I think you can see that we have many problems here that need some responsible judgment and analysis before we can

consider that. And I will also say that we are going to take a responsible look. I think almost every one of us here is fundamentally against the extension of controls unless they are absolutely necessary; and if we can find any other mechanism where the industry can do it, of course, we are going along on that basis.

But we will take a responsible look and do this job in an orderly fashion.

Is there any question anybody wants to ask of me?

Does anybody want my job?

(Laughter)

MR. BRYAN W. PAYNE: Mr. Chairman, I would like to ask Mr. Warren to take to the Secretary and then pass on to this Agenda Committee, in line with Barney's suggestion, the press report release of Dr. Ernest O. Thompson, Chairman of the Railroad Commission of Texas. That came out after the questionnaire was sent to the main purchasers of crude in Texas. And I should like to call your attention to some of the very pertinent facts in that release. This is quoted from the release.

In that questionnaire, he asked for the storage of all crude gasoline and other products.

"This totals some 46 million barrels of greater over-all stocks in storage, crude and products, than one year ago. . . . ."

"Texas law requires this Commission to undertake to ascertain the market demand for Texas crude oil at all times.

"It is forbidden by Texas statute to allow to be produced more oil than the market demand.

"This Commission has no legal control of imports, but we can point out how much oil is being imported and by whom. It seems that Texas crude is being supplanted by foreign crude by some companies. This works a hardship on Texas producers. The average Texas oil well produces twenty barrels per day. The average Persian Gulf area well produces five thousand barrels of oil per day.

"The import duty is ten and one-half cents per barrel on oil.

"How can a Texas twenty-barrel allowable compete with a five thousand barrel well?

"We have built up a reserve daily producing ability in Texas of six hundred thousand barrels of oil per day for defense. Now we are confronted with the threat of being supplanted with foreign crude. It does not seem fair." "

I think this is a very good statement, and he put it right out on the table for the importing companies to take a look at.

CHAIRMAN FOLLIS: You can make that a personal request to Mr. Warren.

MR. BRYAN W. PAYNE: That is right. I understand that I can't make it as a motion before the house.

MR. WARREN: Anything else?

If not, I will turn my part of the meeting over to Mr. Follis.

(Applause)

CHAIRMAN FOLLIS: Thank you, Mr. Warren.

Gentlemen, that concludes our agenda. Is there any new business?

If not, a motion to adjourn is in order.

MR. MAJEWSKI: I would like to, before you move to adjourn, just take a minute. And I want you to be relaxed and comfortable. I am going to take a minute, if you will please sit down.

(Laughter)

I think that the thing that would please Walter Hallanan the most -- because I did talk to him yesterday, too, and he talked about the great plans he had for the Inaugural of the new Secretary of the Interior. And I think the thing that would please him the most, that is, next to the fine action you took this morning of sending to him felicitations and a "get well" message, would be to know that the Council feels, Mr. Chairman, that you have ably and with great credit

conducted these proceedings as Chairman in his absence.

I think also that the Council should express its appreciation and satisfaction by a rising vote of thanks to Mr. Follis.

(Standing applause)

MR. MAJEWSKI: I move we adjourn.

CHAIRMAN FOLLIS: Gentlemen, I appreciate that very much.

We are adjourned.

(Whereupon, at 3:00 o'clock p.m.,

Thursday, February 26, 1953, the Twenty-Eighth Meeting of the National Petroleum Council was adjourned.)