

TRANSCRIPT OF PROCEEDINGS

In the Matter of:

MEETING OF THE NATIONAL PETROLEUM COUNCIL

Date: September 29, 1953

Place: Washington, D. C.

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MEETING
OF THE
NATIONAL PETROLEUM COUNCIL

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Conference Rooms A and B,
Departmental Auditorium,
12th and Constitution Avenue,
Washington, D. C.

Tuesday, September 29, 1953
10:00 o'clock a.m.

P R O C E E D I N G S

CHAIRMAN HALLANAN: The Council will please come to order. The Secretary will please call the roll.

MR. BROWN: Robert O. Anderson.	Present
Hines H. Baker	Present
Max W. Ball	Present
Munger T. Ball	Absent
T. H. Barton	Absent
Paul G. Benedum	Present
Fred E. Bergfors	Present
Jacob Blaustein	Present
Paul G. Blazer	Absent.

CHAIRMAN HALLANAN: Mr. Bovaird, will you please rise? I would like to present a new member of the Council, Mr. Davis D. Bovair, President of Petroleum Equipment Suppliers Association of Tulsa, Oklahoma. We are glad to have you here. (Applause.)

MR. BROWN: William R. Boyd, Jr.	Absent
Reid Brazell	Present
J. S. Bridwell	Present
F. W. Brigance	Absent
Bruce K. Brown	Present
Russell B. Brown (Mr. Jameson)	Present
M. D. Bryant	Absent
H. S. M. Burns	Present

CHAIRMAN HALLANAN: Mr. Chipman, will you please rise. I desire to present a new member of the Council, Mr. Charles A. Chipman, President of the Pennsylvania Grade Crude Oil Association, of Bolivar, New York. We welcome you to the Council. (Applause.)

MR. BROWN: J. P. Coleman	Absent
Robert H. Colley	Present
Stuart M. Crocker	Absent.
John F. Cummins (Melvin Senichell)	Present
E. DeBolyer	Absent
J. C. Donnell, II	Present
Fayette B. Dow	Present
Warwick M. Downing	Present
Wesley E. Downing	Present
J. Frank Drake	Absent
Gordon Duke	Present
James P. Dunnigan	Absent
Paul Endacott	Present
Max M. Fisher	Present
R. G. Follis	Present
Blyde T. Foster	Present
Stark Fox	Absent
Hial B. Gernert	Absent
B. C. Graves	Present
B. I. Graves	Present

Walter S. Hallanan	Present
Jake L. Hamon	Absent
George J. Hanks	Present
B. A. Hardey	Absent
R. H. Hargrove	Present
John Harper	Present
Harry B. Hilts	Absent
Eugene Holman	Present
D. A. Hulcy	Absent
A. Jacobsen	Present
B. Brewster Jennings	Present
Carl A. Johnson	Absent
Charles S. Jones	Absent
W. Alton Jones	Present
Paul Kayser	Absent
William M. Keck, Sr. (Roger Johnson)	Absent
Richard Gray Lawton	Absent
J. Sayles Leach	Present
John M. Lovejoy	Present
Charlton H. Lyons	Absent
L. F. McCollum (James J. Cosgrove)	Present
R. W. McDowell	Absent
N. C. McGowen	Absent
William G. Maguire	Absent
B. L. Majewski	Absent

J. Howard Marshall	Absent
A. C. Mattei	Absent
Nelson Maynard	Absent
S. B. Mosher	Absent
Glenn E. Nielson	Absent
S. F. Niness	Present
Maston Nixon	Absent
J. L. Nolan	Present
John F. O'Shaughnessy	Present
J. R. Parten	Present
William T. Payne	Absent
Frank M. Perry	Present
Joseph E. Pogue	Present
Frank M. Porter	Absent
E. E. Pyles	Absent
Walter R. Reitz	Present
Sid W. Richardson	Absent
A. S. Ritchie	Present
M. H. Robineau	Absent
J. French Robinson	Present
Roland V. Rodman	Absent
A. H. Rowan	Absent
A. W. Scott (E. Fallin)	Present
R. S. Shannon	Absent
W. G. Skelly	Absent

P. C. Spencer

Present

CHAIRMAN HALLANAN: Mr. Staples, will you please rise. Gentlemen, I desire to present a new member of the Council, Mr. D. T. Staples, President of the Tidewater Associated Oil Company of San Francisco. (Applause.)

MR. BROWN: Reese H. Taylor

Absent

Roy J. Thompson

Absent

W. W. Vandever

Present

W. G. Violette

Absent

S. M. Fockel

Present.

CHAIRMAN HALLANAN: Mr. Warren, will you please rise? I desire to present an old new member of the Council, J. Ed Warren, of King, Warren and Dye, Midland, Texas. (Applause)

MR. BROWN: William K. Warren

Present

L. S. Wescoat

Present

John H. White

Present

Robert E. Wilson

Present

John Wrather

Present

C. H. Wright

Present.

CHAIRMAN HALLANAN: A quorum is present, gentlemen. You have received a copy of the minutes of the last meeting of the Council on May 28. What is your pleasure?

MR. JONES: I move they be approved.

CHAIRMAN HALLANAN: It has been moved that the

minutes be approved.

... Motion duly seconded ...

CHAIRMAN HALLANAN: All in favor, indicate by saying "aye"; contrary, "no". It is so ordered.

Gentlemen, I want to bring to the attention of the Council at this time the passing of a man who, while he was never a member of this Council, had much to do with carving out the original concept of the Council and the establishment of our fundamental working organization. I refer to the passing of a beloved friend and great leader of the industry, Mr. Charles L. Harding. Charlie Harding served on the drafting committee when the Council was organized. He also served as a member of the committee that wrote the National Oil Policy, which represents the outstanding declaration of the petroleum industry on public policy.

I would like at this time to call briefly upon one who was associated with him in much of this work. May I ask Mr. George Koegler at this time to speak with reference to one who was beloved by all of us, and who made a great contribution to the work of this council. Mr. George Koegler.

MR. KOEGLER: Mr. Chairman, I think this is a most difficult thing for me to do. As must be the case with all of you gentlemen who knew Charlie well, I feel a deep sense of personal loss. A hard working, serious and conscientious man who always in my experience had the best

interests of the industry close to his heart left us at a very young age. Charlie had a brilliant career before him and something has intervened to deprive us of the pleasure of knowing him any further.

I just want to say that I think ~~me~~ all of us have lost a valued counsellor and friend.

CHAIRMAN HALLANAN: May I ask the members of the Council to stand in rising tribute to the memory of Charlie Harding.

... The Council arose in tribute to Mr. Harding ...

CHAIRMAN HALLANAN: The report of the Secretary Treasurer is the next order of business.

REPORT OF SECRETARY-TREASURER.

MR. BROWN: Since the first of January during the calendar year up to date, we have taken in from contributions, publications and other revenues, \$111,443. The disbursements made during this period were \$76,652. That leaves receipts in excess of expenditures so far of \$34,791. We started the year with \$7,998, leaving a balance on hand of \$42,789.

Our reserve fund was increased \$12,000 during the period, so we now have \$77,000 in reserve.

CHAIRMAN HALLANAN: If there are no remarks, the report will be received and filed.

When we met here last in the latter part of May,

the Committee on Government Personnel was groping with the problem of making a recommendation to the Secretary of the Interior with respect to the appointment of a successor to Mr. Ed Warren as Deputy Petroleum Administrator. You are all familiar with what has happened in the meantime. The committee recommended in behalf of Mr. Joe LaFortune, and the appointment of Mr. Joe LaFortune, but in order that the record may be kept straight, I should like at this time to call upon Mr. Jones to review the recommendations of the committee, and also anything that may relate to the future in the Council activities, that is, relationship with PAD. Mr. Jones.

REPORT OF COMMITTEE ON PAD PERSONNEL.

MR. W. ALTON JONES: Mr. Chairman, my report is brief. The Chairman has told you that we were confronted last time when we met here with the necessity of selecting a Deputy Administrator. While some of the members of the Council felt that the activities of PAD might well be terminated at an earlier date, everyone believed, and we still believe, that it is of the highest importance that so long as PAD shall continue to function, that it have good leadership and good personnel. The committee therefore was very anxious to secure the services of a man competent to sit at the right hand of the Secretary and help him with the administrative problems.

We were fortunate in getting Mr. LaFortune to take

over this chore. There is no glamor any longer in the job at PAD, if there ever was, and I am quite sure some people would say there never has been. But when a job is waning, and it looks as though it is drawing to a close, some people are inclined to say, "Let us pack up and go home." So in taking over, Mr. LaFortune faced a little more difficult problem than some of his predecessors, for he had to deal with a frame of mind among the administrative staff that did not exist when we were faced with a dire emergency and when everybody felt their jobs were very essential.

I want to express here and now on behalf of the committee our deep appreciation to Mr. LaFortune for taking over under those circumstances, and for the fine way in which he has carried on. So far as I know, the committee has no unfilled requests for personnel, and Mr. LaFortune has gotten hold of the situation in good shape.

As to the future of PAD, in conference yesterday Mr. LaFortune expressed the view that perhaps by the end of the year we might see a recommendation going to the Secretary that the activities of PAD be wound up. That, of course, is the big "if" that we do not face some further dire emergency or serious emergency in the National Defense Program. With the termination of the fighting in Korea, some of our problems have eased up, and with the improvement of the steel supply situation, we find that the material problem

is greatly altered, so that we can foresee with reasonable confidence a diminution in demand here for administrative service as far as PAD is concerned.

This question will be studied again, and perhaps by the time we meet at the close of the year it will have been resolved. In the meantime, I think we must not assume that this situation is going to be liquidated until we know that conditions will permit.

I think that is all, Mr. Chairman, that I have.

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

Now I desire at this time to merely present, who will speak later, the new Deputy Petroleum Administrator, Mr. Joe LaFortune. (Applause.)

Mr. Jacobsen, as Chairman of the Agenda Committee, will you present your report at this time?

REPORT OF AGENDA COMMITTEE

MR. A. JACOBSEN: Two requests have been received for study by the Council. The first was addressed to Mr. Hallanan by Mr. Stewart, acting Deputy Administrator, under date of September 15, 1953. It reads:

"Dear Mr. Hallanan:

"Prior to the establishment of PAD at the time of the communist invasion of South Korea the Oil and Gas Division (which had succeeded the wartime Petroleum Administration for War) was the petroleum agency within the

Department of the Interior. It dealt with the industry, both directly and through the National Petroleum Council. It dealt with the War and Navy Departments and, later, with the Department of Defense; being assisted in military petroleum planning matters by the Military Petroleum Advisory Board, a group of industry experts especially appointed for that purpose.

"It now appears that the Petroleum Administration for Defense may not be needed subsequent to June 30, 1954. If no further crisis develops, this agency could properly be liquidated as soon as it has completed its emergency defense responsibilities. The long-range responsibilities and functions which still remain could be administered by a normal peacetime organization, such as the Oil and Gas Division. The Oil and Gas Division could take over the present relationship of the Petroleum Administration for Defense with the National Petroleum Council and, if desired by the Department of Defense, the Department of the Interior could re-establish a Military Petroleum Advisory Board on the same general basis that that organization functioned in 1947-50.

"In order that the Secretary of the Interior may have the benefit of National Petroleum Council advice as to the type, functions, and staffing of a normal peacetime organization dealing with petroleum and gas activities, I

would appreciate it if the NPC would undertake a study to determine the organization and functions it would consider appropriate and submit its report of the study, together with advice and recommendations deemed appropriate. Prompt undertaking of this study would be highly desirable and most welcome so that the Secretary of the Interior will have ample opportunity to consider the matter in his future planning.

"Sincerely yours, H. A. Stewart, Acting Deputy Administrator."

The other letter is addressed to Hallanan by the Secretary of the Interior, and is dated September 25th.

"My dear Mr. Hallanan:

"There has developed within recent years a fundamental conflict between the general mining laws of the United States and the Mineral Leasing Act of February 25, 1920, as amended, which covers the leasing of oil, gas, coal, sodium, potash and phosphate underlying Federal lands.

"Serious conflicts arise from the location of mineral claims filed under the mining laws by persons seeking to develop uranium and other fissionable materials in areas subject to oil and gas leases or applications therefor or known to be valuable for oil or gas, and from the issuance of oil and gas leases covering land included in unpatented mining claims.

"The Department of the Interior has been seeking a reasonable solution to this problem.

"The 83d Congress, after holding extensive hearings during its first session, at which representatives of both mining and oil and gas interests testified, passed stop-gap legislation (Public Law 250) with the intent to investigate further in the expectation of passing permanent legislation at the next session. A sound and reasonable solution of the problem is a matter of consequence to the oil and gas industry in its operation in public land areas. It likewise is a matter of consequence to the mining industry. Inasmuch as two of the basic natural resource industries are involved, it becomes a matter of national interest.

"We therefore request the National Petroleum Council promptly to make a study of this problem and to furnish such advice and make such recommendations to the Secretary of the Interior as the Council deems appropriate for reconciling the best interests of the oil and gas industries, the mining industry, and the United States.

"Sincerely yours, Douglas McKay, Secretary of the Interior."

These two requests for study were taken up at a meeting of the Agenda Committee yesterday and the Agenda Committee submits to the Council the following report thereon:

Under date of September 15, 1953, Mr. H. A.

Stewart, Acting Deputy Administrator of the Petroleum Administration for Defense, addressed a letter to Mr. Walter S. Hallanan, Chairman of the National Petroleum Council, requesting that the Council study the organization and functions of a normal peacetime organization dealing with petroleum and gas activities, in the event the Petroleum Administration for Defense is liquidated, and to submit a report thereon with such advice and recommendations as it deems appropriate.

As provided in the Articles of Organization of the Council this letter was considered at a meeting of the Agenda Committee on September 28, 1953, in Washington, D. C., at which meeting it was unanimously agreed to recommend to the Council the appointment of a committee to make a study as requested by Mr. Stewart and to report to the Council.

Also under date of September 25, 1953, the Honorable Douglas McKay, Secretary of the Interior, addressed a letter to Mr. Hallanan, requesting that the Council study the problem created by the conflict which has developed in recent years between the general mining laws of the United States and the Mineral Leasing Act of February 25, 1920, as amended, which covers the leasing of oil, gas, coal, sodium, potash and phosphate underlying Federal lands, and to submit a report thereon with such advice and recommendations as it deems appropriate.

As provided in the Articles of Organization of the Council, this letter was also considered at the meeting of the Agenda Committee held on September 28, in Washington, D. C., at which meeting it was unanimously agreed to recommend to the Council the appointment of a committee to study the problem outlined in the Secretary's letter and, within the framework of the Council's proper functions, to make recommendations to the Council regarding a sound policy affecting the common and diverse interests of the oil and gas industries, the mining industry and the United States.

"Respectfully submitted, A. Jacobsen, Chairman, Agenda Committee."

I move the adoption of this report.

MR. JONES: I second the motion.

CHAIRMAN HALLANAN: You have heard the report presented by the Chairman of the Agenda Committee. It has been moved and seconded that the report be adopted. Is there any discussion? Any remarks? All in favor of the motion indicate by saying "aye"; contrary, "no". The report is unanimously adopted.

May I at this time now call upon Mr. Endacott, Chairman of the Committee on Oil and Gas Exploratory and Development Requirements to submit a progress report from that committee.

Mr. Paul Endacott.

REPORT OF COMMITTEE ON OIL AND GAS
EXPLORATORY AND DEVELOPMENT REQUIREMENTS.

MR. PAUL ENDACOTT: Mr. Chairman and gentlemen of the Council, as the Chairman has said, this is strictly a progress report. The assignment to your committee was to determine the minimum requirements of manpower and materials for exploration, drilling and production, and all of the allied services related to those activities, and for 1952 rate of drilling and 10 per cent above that.

We have found out that is rather an all-embracing assignment. However, we will have the final report for the next meeting of the Council. A great mass of data has been assembled, and it has been fortunate that this assignment was made at this time, because the committees that have been working on the problem have found much information available which might not have been readily available through the various agencies if we had delayed this for any considerable length of time in the future.

The procedure to go after this assignment was somewhat difficult to tie into, but we decided finally to utilize as much as possible the work of the previous Manpower Committees and the Materials Committees. So the work has been divided into two main parts under Mr. Vandever, who was previously in charge of the manpower, and under Russell Brown, who was previously in charge of the materials,

and subdividing each one of those committees into three divisions of the industry so that we would have exploration, drilling and producing operations, all the way up to the lease tank.

One of our big problems has been trying to decide just how many of these seemingly hundreds of allied services should be included in this study. We have been delayed somewhat because there has been no basic information developed for the exploration branch. That subcommittee work has had to be built up from the ground, because there has not been an adequate or a dependable analysis of the manpower and material requirements. The committee is trying to get out a report which will be useable for different levels of operations so that you can adjust the basic data to accommodate any situation which may prevail if the information ever be needed.

We are very open right at the moment for suggestions from any groups or individuals, because we expect in about three weeks to try to button up all this mass of information that has been assembled. I think you are aware of the fact that we have not sent out a large number of questionnaires to the industry. We were fortunate in being able to do much of this work through trade associations, and through the PAD records and in some cases we have had to make sample analyses by segments

of the industry.

When we are through, we hope there will be something there that you can use, and we promise we will have a final report for you at the next meeting.

CHAIRMAN HALLANAN: Thank you very much, Mr. Endacott. We will look for the final report to be submitted at the next meeting of the Council.

Pending the arrival of Secretary McKay, who has indicated that he will be with us at 11 o'clock this morning, I wish to move now in the agenda to Item 7. May I call on at this time Brigadier General Alfred H. Johnson, United States Air Force, Chief, Office of Petroleum Programs, Office of Assistant Secretary of Defense (Supply and Logistics), and Chairman, Joint Petroleum Committee, to discuss the matter of military petroleum requirements.

MILITARY PETROLEUM REQUIREMENTS

BRIGADIER GENERAL ALFRED H. JOHNSON: Mr. Chairman, members of the Council, it is always a pleasure to be with you here at these meetings.

I have very little to discuss in the way of requirements. Commander Major, representing the purchasing agency, will go into those in some detail. As far as I am concerned, I am informed that industry is satisfactorily meeting all our requirements at the present time.

A review of the Korean requirements might be of

interest to some of you. A recent analysis indicated that in the field of aviation gasoline and jet fuel, following the Armistice, there was a slight drop in consumption. In motor gasoline and diesel fuel the consumption stayed up. In Navy special fuel oil, there was a slight drop. The biggest drop was in aviation gasoline and jet fuel, immediately following the armistice.

I believe that represented a sort of rest period for the boys. There was no wholesale removal of troops from the area so we did not get the large increase in transport requirements that might be expected at a time like that.

Following the drop in aviation gasoline and jet fuel, they started building up again after about six to eight weeks, although they have not yet reached the high point of consumption previous to the armistice. Jet fuel consumption for the forward periods is estimated to be about the same as it was prior to the armistice. Aviation gasoline estimates for consumption in that area are somewhat less than they were at the peak requirements.

Throughout the rest of the world there has been no change to amount to anything. Aviation gasoline consumption has risen slightly since we met last, and jet fuel is continuing to rise rapidly.

Within the Department of Defense, we have had quite a reorganization with the appointment of several

Assistant Secretaries under Secretary Wilson and Secretary Kyes. Secretary Thomas is now Assistant Secretary for Supply and Logistics, and it appears that office will carry on many of the functions of the Munitions Board in the field of petroleum. The Office of Petroleum Programs is in the Assistant Secretary for Supply and Logistics' office, and it is anticipated that the function of the petroleum will remain in that organization and will probably represent all the segments of the Secretary of Defense's office in petroleum matters, and will be consulted on policy and planning matters pertaining to petroleum which come before the Secretary of Defense for consideration.

Certain operational features that were carried on in the Munitions Board, Office of Petroleum Programs, are now being transferred or are under consideration for transfer to the purchasing agency in line with the Secretary of Defense's policy of reducing the staff to the bare essentials and confining their activities primarily to planning and policy matters.

In that connection the Armed Services Petroleum Purchasing Agency will take on some of the operating functions and more of the contacts with the industry that were carried on to some extent in the Office of Petroleum Programs.

In our relationship with the Petroleum Administration for Defense, we have continued in close liaison working

in day to day contact with the Petroleum Administration for Defense in our mobilization planning and our petroleum problems that we have in the Department of Defense. We are most anxious to retain a working organization of that type. As you know, the Petroleum Administration for Defense took on many of the industrial planning functions and mobilization studies which are so essential to a mobilization planning conducted by the Department of Defense from a strategic and operational point of view. It is necessary that some organization be generated to complement the purely strategic and operational planning functions of the Department of Defense.

So we are quite concerned with the possibility of the dissolution of the Petroleum Administration, and the setting up of an organization which can be of service to us and help us as the Petroleum Administration has helped us in the past. We are sort of reluctant to see the possibility of its dissolution, as was mentioned here. I hope that if it is dissolved, that some sort of military petroleum advisory board or council will be organized within the industry so that we can benefit by the advice and judgment in our planning in the Department of Defense, and in our relationship with the other executive agencies of the government.

One other matter is that there is a possibility --

in fact quite a probability -- that prior to the next meeting of the Petroleum Council that they may see fit to transfer me to other activities within the Department of Defense, and I want to express my personal appreciation for the help that industry has been to the functioning of my office and the valued advice and counsel I have received from the Council here, the Petroleum Administration for Defense, and the individuals making up the Council in industry.

My two year tour which is a normal tour on the job that I have had ends in November, and I expect that a general officer from the Army will take over for me, and I am sure he will receive the cooperation and advice I have. Thank you very much. (Applause.)

CHAIRMAN HALLANAN: General Johnson, I am certain I express the unanimous sentiment of this Council that we shall regret to see that happen. It has been a great pleasure and opportunity to cooperate with a great military leader, and we are pleased to have had the chance to work with you as you have worked with us. God bless you and take care of you, and give you the best of everything. (Applause.)

MR. ALTON JONES: Mr. Chairman, the concern that the General expressed about the discontinuance of PAD is not quite serious. Neither Mr. LaFortune nor the Secretary would consider the discontinuance of PAD until appropriate machinery had been set up in the Department of Interior to

carry on such functions as the Department should have in coordination with the Department of Defense. I am sure that Secretary McKay and Mr. LaFortune in making recommendations for a modified PAD, will take into account the full requirements of the military. I think those of us who have struggled with this problem of inter-departmental relations with the oil industry all agree it would be a serious mistake to ever see us go back to the old situation where the petroleum industry had to do business with 47 departments of government. That was the condition which prevailed at the time of the outbreak of the second World War or shortly thereafter. I think we have all found it much more convenient to clear up problems through Interior or PAD, as we have come to know that division or Department of Interior through which we work. If and as the time comes to discontinue or diminish the activities of PAD, appropriate arrangements will be made to reactivate the Oil and Gas Division and the Military Advisory Board, which Bruce Brown served on and was Chairman of for a long period of time in the interim between World War II and III which we still have on. So I think the General need not be concerned, Mr. Chairman, about that phase of it.

MR. BRUCE BROWN: In view of the personal reference, I agree with everything he said. We have a whole new crop of younger and more vigorous and smarter guys. We can get a

program man so that Stewart Coleman won't have to work again, and we can get a chairman so I won't have to work again.

Just bear in mind that the PAD will have to provide the next Military Advisory Board.

MR. ALTON JONES: In rebuttal, I want to say that the Committee on Personnel will attend to this matter

CHAIRMAN HALLANAN: I have every reason to believe that when Mr. Jones said the committee will do that, that he means exactly what he says. (Laughter)

The matter of Military Petroleum Procurement, may I present at this time Commander Samuel Major, Director of the Purchase Division of the Armed Services Petroleum Purchasing Agency. Commander Major.

MILITARY PETROLEUM PROCUREMENT

COMMANDER SAMUEL MAJOR: Mr. Chairman and gentlemen, first of all I would like to express the regrets of Colonel Brown, the head of our agency, in his inability to be with us today. ASPPA always welcomes the opportunity to participate in these meetings where so many items of benefit to industry and ASPPA are brought forth. We find it very helpful, too, to present to you our petroleum picture, particularly in connection with meeting the problems that we have had to face in the past few years.

For the first time in several years, our problems seemed to have been well resolved for the current picture.

The Navy special fuel oil situation that we faced two years ago, and the jet difficulties of last fall are no longer with us. Even the chronic trouble maker, the supply of high octane aviation fuel, has been met for the first time, and we are satisfactorily covered for the period ending December 31 of this year.

I wish to emphasize, though, that is our current position and does not necessarily reflect a satisfactory situation for the entire fiscal year through next June. Some have expressed concern that military requirements would be severely curtailed, particularly in the high octane field. Actually in the second half of this fiscal year, that is, the period January through June, we intend to purchase some 3.2 million barrels more of grade 115 aviation gasoline than we have purchased during this first half year.

Accordingly, you can see that then we may not feel confident that those requirements will be met, particularly in view of the recent removal of PAD Order No. 4, the full impact of which we have not yet been able to observe.

ASPPA concurred in the removal of that order, however, because of our more than sufficient coverage at the current time, and because of our feeling that industry can meet our requirements even though they will be increased substantially.

You may question, perhaps, why it is that we have

this uneven distribution in our purchase of high octane fuel between the first half of this year and the second half. This is principally occasioned by lack of storage to permit the departments to make liftings in the amount which they require. Fortunately, in the next six months we have about five million barrels of additional storage that will become available to permit liftings of jet fuel and aviation gasoline.

I think you gentlemen will recall that we have previously reported the seriousness of the lack of storage as one of our principal procurement problems. We are still in search of additional tankage.

In view of this situation which I have described, and to take advantage of additional offerings of high octane fuel that may become available in the next few months and that may therefore be possibly applied for our increased requirements in the second half of the year, we have requested the departments to divert aviation gas to such storage as they may practically do. We have also requested refiners and producers of aviation gasoline to build up inventories of grade 115 aviation gasoline or in the alternative to make available to ASPPA storage on a short term contract basis. This would contemplate our purchase now or in the next few months of aviation gasoline that might become available for storage by the company concerned, and delivered to the military department subsequent to January 1st.

Your support in such a plan of action would be greatly appreciated, and would be of mutual benefit to the industry, of course, and to ASPPA.

In concluding, I would like to express my appreciation to PAD and to the members of the Council for helping us meet these billion dollar requirements of the world's largest oil customer. Like General Johnson, I am sure we can count on your continued support. Thank you. (Applause.)

CHAIRMAN HALLANAN: Are there any questions?

MR. ROBERT E. WILSON: I would like to ask Commander Major how the second half of the coming fiscal year demand for 115 compares with the second half of the last fiscal year?

COMMANDER MAJOR: It is considerably larger. I don't recall the exact percentage figures. The general increase for the fiscal year as a whole was a total of nearly 30 million barrels, compared to about 23 million barrels in the last year.

MR. WILSON: I was going to add that I think the effort to smooth out the take is in the interest of both the industry and the government. We have been accustomed, and you had the problem of the rather violent ups and downs which has made the industry look upon the government as not the best type of customer. The effort to take the extra quantity this fall in preparation for next winter and spring,

I think is quite commendable. I hope the industry will look seriously into the problem of helping to provide some of the storage.

Rumor has it that a good many of our tanks are full, too. I think we ought to do this if we possibly can, even if it means stopping making some other things.

One other advantage in storage at the refinery is that you can move it out and easily turn over your stocks, more easily than you can if it gets into military storage where it makes a double handling. If you store it at the point of handling, you can ship the oldest material all the time and work it through, whereas if it gets out to dead storage at a military installation, either you let it stay there maybe too long, or you have a double handling in order to turn over the stocks.

MR. MAX W. BALL: What is the magnitude of the storage that you are talking about? Can you give us a general idea of the overall magnitude of the storage that will enable you to do what you want to do?

COMMANDER MAJOR: I would say approximately a million barrels. Of course, that depends on the production. The main thing we want to do is to be able to take advantage of additional offerings of aviation gasoline, rather than turn them down now and not be able to get them in the next half.

MR. BALL: Do I understand that if you have one million barrels of extra storage it would do that?

COMMANDER MAJOR: It would go a long way to doing that.

MR. GORDON DUKE: Commander, you touched on the increased consumption for the second half of the current fiscal year. That evidently has more to do with increasing your storage rather than increased consumption.

COMMANDER MAJOR: That is correct, although there is an increase in consumption in the figures. The General pointed out that our consumption rates have not changed from what they were originally estimated, except to a minor degree in Korea.

CHAIRMAN HALLANAN: Any other questions, gentlemen?

(No response.)

CHAIRMAN HALLANAN: It has been very interesting, Commander; thank you very much.

COMMANDER MAJOR: Thank you.

CHAIRMAN HALLANAN: Gentlemen, it is a great pleasure now to present to the Council the new Deputy Petroleum Administrator, Mr. Joe LaFortune, who will take this opportunity to review the activities of PAD, and to make other observations as to what lies ahead with respect to the petroleum situation. Mr. LaFortune.

PROSPECTIVE PETROLEUM SITUATION

MR. JOSEPH A. LaFORTUNE: Mr. Chairman, fellow members of the NPC, before reading this little talk that I have, I would like to take this opportunity to introduce four members of our organization who will soon be returning to their respective companies. I would like to have Mr. Rhea Jackson, of Socony, stand.

Mr. Paul Kuhl, Mr. George Gibson and Mr. Art Kuhl.

CHAIRMAN HALLINAN: Will the gentlemen please come forward.

MR. LaFORTUNE: These four gentlemen have been doing a magnificent job for PAD. They deserve your recognition and approbation. I would like to have them stand, and you can do whatever you want, but I would like to see you give them a very good hand. (Applause.)

It is an uncomfortable pleasure for me to be here today. I am happy to have for the first time the chance to meet all of you. Everyone in the industry of course knows about NPC. Everyone I know has agreed that it ought to continue just as it has now, an advisory committee of experts who are willing to tell the government what they know, but are never willing to knuckle under to any dictation.

As far as I am concerned, this is close to an ideal arrangement. We have the government and industry cooperating,

but we don't have one or the other trying to run everything on its own.

The uncomfortable feeling I have comes from the fact that this is my first try at rendering an account of my stewardship. It is less than three months since I took over this job. I can't pretend that I know every detail of everything that goes on in the agency. That, in fact, is why I have made sure that a number of experts would be here with us. I doubt that anyone is anxious to get into detailed technical questions, but if you do, the people are here to answer them.

I like to think I know a lot about the details of the natural gasoline business, but that does not mean at all that I know a lot about the details of this vast and varied industry of oil and gas, and I don't want to make up answers. I would like, though, to give you some notion of where PAD stands at the moment.

Much depends on what paper you are reading, on what date, of course. As best I can gather, on a given day, we have nine weeks or nine months or nine years to go. You can take your choice. For myself, I have no final answer. I signed on for a full year of service in this agency, and I shall be glad to serve that year. If it is necessary, you will find me at my desk from nine in the morning until 5:30 at night. But I have no way of knowing how long PAD is

going to be necessary. We are pledged to disappear just as soon as the defense mobilization need for the agency disappears. I think everyone will agree that we shall not renege on that pledge in any way. How close are we to the end of the emergency on oil and gas supplies? I can't answer the question. Here, though, are some of the facts of our present operations that will let you know what goes on.

The most important thing we are temporarily over the hump on is the problem of aviation gasoline. That is why today we announced the three months suspension of PAD Order No. 3. That was the order that prohibited the use of alcohol in aviation gasoline, and spelled out PAD's powers to direct the use of all components of aviation gasoline. Just now we have enough and more than enough aviation gasoline to meet all current requirements, military and civilian. At the same time because plate steel has been short, we have not been able to build enough storage to provide against future expected needs so we are out of balance at the moment. The only answer was a suspension of our Order 3 for at least 90 days. During the time we can look the situation over thoroughly. We are asking all producers and blenders of aviation gasoline components to continue their customary reports. If we find that military requirements can be met with present supplies, fine. We will then be in a position to end Order 3 completely. If we find that we can't

meet the requirements, then the military will be asking for bids in October, and we will have to put Order 3 in effect again.

You have heard a lot about a possible Gulf Coast-East Coast pipe line lately. Let me state the facts about that as briefly as I can.

We recently completed at the request of the Office of Defense Mobilization a study of the subject of inland transportation of oil in case of an all-out emergency. You don't have to be a genius to recognize that the country can't count on all the present tanker capacity if we have a war. Too many of the tankers in off-shore operations are sitting ducks for any enemy submarine. Too many are needed for extraordinary shipments of crude or products just as soon as there is a theater of war. We have said as a result that among other possible solutions, a new pipe line might be of definite benefit for defense. We were more specific than that. Our proposal is that somehow, some time, the nation might develop new pipe line capacity to deliver 540,000 barrels a day of crude from Texas to the east coast, 400,000 barrels a day from the Middle West to the east coast. That by our calculations, which are based on certain assumptions the military presented to us, is what is needed. We propose, then, that the officials charged with final responsibility ask the industry for proposals in building and financing of

some such facility. Certainly we don't want to map out a possible route, say what size pipe should be laid, specify the number of pumping stations to be built, or insist that the supervisor in charge at Station X must have red hair. We want as much as possible to have the industry say just what can and will be done. No one in PAD is deluded about this. We know that the line about which we are talking is not, given present economic conditions and present petroleum demand, an attractive proposition commercially. What we are talking about, because we have a defense responsibility, is something that might be profitable at the moment, but certainly should be needed in case of war.

There will, we recognize, have to be some special incentive for construction if we are ever going to get this pipe line. The government is, I know, ready to help construction by giving accelerated tax amortization on the project. If any substantial part of the pipe line capacity has to be maintained on standby, it is possible that future assistance should be granted. I can make no final statement about that part of the program. Neither can anyone else in PAD. This is not after all our problem in the last analysis. We are supposed to be advisors on the problems of petroleum. We are not the people who make the controlling decisions.

I think it is good that the system works that way.

Ours should be the function of furnishing the technical knowledge, the basic data, and their evaluation.

At this moment, I think I can inject the letter I have in my possession from the Executive Office of the President, Office of Defense Mobilization, pertaining to the chapter I just finished. It is addressed to the Honorable Douglas McKay, Secretary of the Interior.

"Dear Mr. Secretary:

"On the basis of recent studies by the Petroleum Administration for Defense, it appears that our present potential for transporting crude oil by pipe line is substantially short of what we would be required in the event of an emergency. The additional crude oil pipe line capacity which we will need, I understand, is of the general magnitude of 500,000 barrels per day from the Gulf Coast to the vicinity of Lima, Ohio, and about a million barrels per day from that vicinity to the east coast. From the findings of the Petroleum Administration for Defense, it is apparent that timely provision of this additional capacity could not be achieved if construction were to be deferred until after the emergency arises. Because of our responsibility for the mobilization, I should appreciate your prompt and active exploration with the industry of what can be done to promote construction by industry to close this gap.

"Sincerely yours, Arthur Flemming, Director."

This is where we stand today on this whole question. We have continuing problems in the foreign field, of course. Although there are currently no special questions of inadequate international supply, we have to go on being informed about what the supply-demand picture is throughout the free world. Unfortunately, there are no timely API or Bureau of Mines reports on the immediate conditions abroad. So we have to do our own weighing, cross-checking and evaluating of data we get from private operators, diplomatic reports, the world press, other government agencies, and a number of sources. The Foreign Petroleum Supply Committee under the voluntary agreement of May 1, 1953, is especially valuable in this field. There is no other place in which we can get so much material on foreign operations so quickly and so accurately. What we learn we make available to the Departments of Defense and State Foreign Operations Administration, the Office of International Trade, the Central Intelligence Agency, and every other interested government group.

In addition, as I think you know, the North Atlantic Treaty Organization includes a Petroleum Planning Committee in its operating structure. The State Department looks to PAD since we have the technical knowledge to represent the United States on this NATO committee.

One more thing before I stop talking about foreign

petroleum. I suppose you can't mention the subject even casually these days without referring some place along the line to the question of Iran. Fortunately for us, I guess, so far the question has been almost entirely in the political area. Its solution at least for now involves no question about the adequacy of petroleum supplies for defense, which is all we are properly concerned with. We, like the people in the oil industry, are intensely interested in what goes on internationally. As an agency, though, PAD has not been involved in any studies of Iranian supplies or what to do about them. For the rest, I suppose I could say in quick summary, that our work since last you met has been routine. It has been a busy routine, but not exceptionally exciting. With the ending of the Controlled Materials Plan on June 30, we have not had the construction progress reports we used to get on pipe lines. We should have some accurate figures soon, though, more accurate than any available before. At PAD's request, the Bureau of Mines has made a study of all pipeline mileage as of December 31, 1952. That survey will be published shortly. It will go beyond previous surveys because in addition to the actual inventory of pipe line, it will show the gross mileage of line laid with new and used pipe, and the mileage of line taken up since 1950, the date of the last survey.

We hope to see this kind of comprehensive study

made every year or two in the future. Meanwhile we have been discussing with the Office of Defense Mobilization new goals for pipe lines and for storage during 1954 and 1955. We are thinking along the lines of one million tons of line pipe a year for oil lines of all types. That is the equivalent of 7250 miles of 16 inch pipe. We are talking also about a possible goal for oil tankage construction in each of the years of 75 million barrels capacity. All of our goals now are, of course, established, not for materials allocation, but for the determination of needed accelerated tax amortization.

These rates of construction are slower than those PAD set up in the original major expansion goals approved in April 1952, which were intended to cover an 18 month period to the end of this year. But they are above the actual construction rates we have registered so far since the first goal was established.

Our natural gas liquids, in which I am particularly interested, there has been discussion of a program goal for a total capacity of 1,280,000 barrels a day by January 1956.

Gentlemen, at this time I think we have already reached it from the results that I know exist in the field. That is a substantial figure for something people thought of only 20 years ago as a byproduct, and something of a nuisance. But we are confident in the agency that the goal can be met

if finally approved.

In refining the industry lags a little in construction of programmed new capacity. We set a goal for 8,300,000 barrels a day of crude capacity by January 1, 1954. It seems now that we will have only 8,100,000 barrels. Things are looking up for the future, though. Our goal for the beginning of 1955 is 8,500,000 barrels a day. It seems we will come within 100,000 barrels a day of hitting that target.

For specialized products we are doing I would say better than anyone expected. We think the goal on production of benzine will be met easily. We are pretty sure that the goal on production of toluene will be exceeded and we have decided that the capacity for lube oils is satisfactory, especially if there were an emergency we could stretch the existing capacity by adjusting specifications on some products for civilian use.

We have realistically to recognize that economics is a factor determining drilling rates now that the controlled materials plan has been ended. Our studies indicate that at least 48,500 wells will be completed in the United States during the year. That will be a new all-time high for industry. Taking it all in all, I think the picture is an encouraging one. PAD is not working now at quite the jet speeds it had to maintain in the past. The

time was when there were more than 350 people in the organization. As I understand it, every one of them was essential. As late as July 1st, we had 75 salaried employees and 18 of those without government compensation, men who have done so much to help the agency. Today we have only 57 salaried workers and 14 without compensation and our salary budget is down to roughly \$400,000 a year.

That salary figure, incidentally, is a major part of the \$447,500 PAD budget for fiscal 1954, less than a third of the sum which we once we working with. But small as it is, by comparison with the past, it still represents almost 90 per cent of the total funds appropriated by Congress to the Interior Department defense agencies this year.

To me the decision of the Secretary of Interior made on the final division of the funds represents a vote of confidence in the agency. It is a vote that I very much appreciate. It is rewarding and satisfying experience to work with PAD and the entire devoted staff. That much I am sure of even after spending as little time as I have here.

I especially enjoy working with Secretary McKay, my boss. He is my kind of people. Back when he was 13, Douglas McKay began to work after school and on Saturdays to help support his family. He delivered papers. He drove a butcher wagon. He was a meat cutter in Portland, Oregon, and during the summer he worked on a farm. He has come a long way since

then, on through college where he worked for his tuition, through service in World War I, when he was badly wounded, through the hard struggle of setting up his own automobile business. He even took one flyer in the petroleum business, though I am afraid he doesn't particularly love us in the industry because of the tough proposition he ran into there on profit margins. Finally, he went into politics, and here he is. I am delighted that he is here. He has proved sympathetic, understanding, knowing. Whatever the future of PAD may be, I am sure it is in safe hands as long as Douglas McKay is Petroleum Administrator. Gentlemen, I thank you. (Applause.)

CHAIRMAN HALLANAN: Mr. Spencer.

MR. P. C. SPENCER: Mr. Chairman, I am sure we have all enjoyed and benefited by Joe LaFortune's excellent report. He has one item in there, however, on which at some appropriate time perhaps later I would like to talk about as Chairman of the Transportation Committee.

CHAIRMAN HALLANAN: I thought we might defer discussion of the matters brought up by Mr. LaFortune until after we have heard from our distinguished guest, if that is agreeable.

Gentlemen, we are delighted here this morning to have Secretary McKay join with us. It has been four months since we were last here. You have had plenty of things to

do in the meantime. I do want to call your attention, Mr. Secretary, if I may, to some of the remarks that were made here this morning in relation to PAD continuing, feeling that perhaps we were coming down to the point where the emergencies that were associated with PAD would no longer continue, and that we might look forward at some time in the reasonable future when PAD could be dissolved. But there is manifest here a very unanimous opinion that when that day does come, that we should desire to revert to the peace time organization of the Oil and Gas Division, and its close working association with the National Petroleum Council.

Mr. Alton Jones, in his remarks this morning, called attention to the fact that prior to World War II that the petroleum industry was dealing with 47 different agencies of the Federal Government; that very largely has been remedied by the concentration of activities in PAD and in the Oil and Gas Division.

I wanted you to know that we want to continue this cooperative work that we have had. That is the overwhelming opinion of the industry. Whenever the time comes to dissolve PAD, that is a matter of determination under all the circumstances that may exist, but we are delighted to work with you. We have had a fine experience with the Oil and Gas Division and with the PAD. At this time I want to present you to the Council for such remarks as you desire to make.

(Applause.)

REMARKS OF HONORABLE DOUGLAS MCKAY

SECRETARY OF THE INTERIOR.

SECRETARY MCKAY: President Hallanan and gentlemen, thank you for that very cordial reception. I want to say very briefly it is a pleasure to be here, and it is a pleasure to welcome you to Washington. I know nothing about the petroleum business. Even by Joe's biography I don't know anything except as a peddler. I did have the distinction at one time of being a service station operator. You are right. There is no money in it. You have the big volume rush and you and a hard working wife both work 18 hours a day. All I wanted was to park cars for my business, so I kept it as long as I could. I am looking forward to the time when I can go back to the automobile business. I didn't sell that when I came to Washington. I could keep that. Some things you can't keep in Washington as a member of the Cabinet, such as stock in General Motors.

I was very much impressed when I came here with the fine organization that the Department had in PAD. I thought it was an outstanding example of cooperation between the Federal Government and business. Being a businessman myself, I don't like any government sticking their nose in my business too much. But in times of emergency like the war or the so-called police action in Korea, which is still a war

to me, there must be some effort of cooperation on the vital defense strategic materials.

I feel the same as other people, that as soon as it is possible for government to get out of business, we should do so. However, that is largely in the hands, as far as continuing some kind of organization, of the industry. We don't want to dictate to industry under any circumstances. We have some good people assigned to the Department of Interior today from business and industry. On my right is Felix Wormser, who has spent his lifetime in the mining business. I hope he knows a little about oil, too, having studied geology. He is well known to you people, and the miners throughout the country.

We have Ralph Tudor, Under Secretary, who has spent his lifetime in engineering both in the Army and as a civilian. I think there is not a better man any place to serve as Under Secretary than Ralph Tudor, with his vast administrative experience, as well as his engineering ability in his own right.

We have Fred Andahl, three times Governor from North Dakota, running power and water.

We have Warren Lewis, a distinguished lawyer from Arizona, who knows Indians and the land and the West.

I think we have a very fine working team in the Department of Interior. I just want to assure you of our

continued interest in the petroleum industry. As a matter of fact, I am leaving tomorrow to go up to Philadelphia and Maine, and I fly down on Friday to take in the Rose Festival in Tyler, Texas, and spend a few days with the various staff members, including Felix and Joe and some of the other technicians in the Department.

In the Gulf area, we are going to take a look at some of the things out in the Gulf, out on the Continental Shelf, which everybody agrees belongs to the Federal Government. There is a little argument about the historical limits, and some of the states have seen fit to sue us on that. Anyway, we will take a look, because I have never seen those operations in the Gulf, and will try to learn something about the industry at first hand.

We will be dealing with the industry and negotiating and handling oil leases on the Continental Shelf.

I don't want to take too much of your time. I brought a distinguished guest today. Walter will introduce him with a few words. Before I sit down, let me say this. Always feel perfectly free to discuss any problems you have with the Department. All of our staff are willing and anxious to work with you because if we can't be of service to the industry, we ought to get a new crew.

It is a pleasure any time to hear from you, either critical or praise. It is seldom we get any praise except

when we are dead. In the meantime don't be afraid to criticize us, because we are very well used to that. We get it every day and we don't get our feelings hurt.

My opponents say I am in charge of the give-away program for the administration. I want to assure you we won't give away anything. You fellows in the oil companies will find that out when you deal with us. All we are doing is giving it back to the people where it belongs. Thanks, gentlemen. (Applause.)

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

Gentlemen, it is a great privilege to have a distinguished American with us this morning, a man who has been recently called to Washington as an advisor to the State Department on matters of foreign oil problems, a man whose name begets confidence. I take great pleasure in presenting to the Council Mr. Herbert Hoover, Jr.

REMARKS OF HERBERT HOOVER, JR.

MR. HOOVER: Mr. Secretary, Mr. Hallanan, members of the National Petroleum Council, I am glad to have this opportunity to join you at this meeting, and before you jump on me in regard to the Iranian situation, I would like to say a couple of words first, because I know that may be uppermost in your minds when I stand here to talk to you.

There are probably, and probably will continue to

be, innumerable rumors about this situation from now on for probably many months and even for years. But any speculation on the type of solution that may ultimately be reached is certainly unwarranted at this time. Few situations today involve such a variety of complex forces, economic, political, legal, strategic and emotional, as that one. Furthermore, they have been building up over a long period of years. It is going to take many months of hard work, and perhaps even years, to reconcile the many divergent points of view that are involved.

Again, thank you for allowing me to join you.

(Applause.)

CHAIRMAN HALLINAN: Mr. Hoover, we are delighted to have you here, and we hope that you will come back at our next meeting and give us a report as to what may happen.

Mr. Wormser, the Assistant Secretary of the Interior, is with us this morning, and at this time I desire to present the Assistant Secretary of the Interior, Mr. Felix Wormser.

REMARKS OF HONORABLE FELIX WORMSER

ASSISTANT SECRETARY OF THE INTERIOR.

MR. WORMSER: My boss, Secretary McKay, Mr. Chairman, friends, again it is a pleasure to be with you. Joe LaFortune early this morning told me, he said, "Felix, this is our first Council meeting." I said, "Joe, you are

wrong. I am a veteran. This is my second meeting." As a matter of fact, I hope I will be privileged to attend all of them.

The oil business, which is, as you have heard, a new thing to me, I am delighted that I have had such wonderful cooperation, and so many of you have taken the trouble to come to my desk and discuss your problems. I am learning fast. I am looking forward to this trip which the Secretary has outlined to you that we will make next week to the Gulf Coast, to see how you get oil from under the sea.

That is just part of the education, of course, but behind it all is a sincere desire of the Secretary and of the Department to cooperate with you as closely as possible. When the Secretary spoke to you a few minutes ago, he did not, unfortunately, reveal everything. He hid something from you, and I feel it is my duty to let you in on the secret, namely, that he has brought his horse to Washington and given up his Cadillac. That may look like a temporary desertion of the petroleum industry, but I can assure you from my intimate conversations with him that he is one of the best friends you have. Thank you. (Applause.)

CHAIRMAN HALLANAN: While these distinguished representatives are with us, Mr. LaFortune has arranged for the presentation of a picture, "It Never Rains Oil", which is an interesting story on the screen, and Secretary

McKay has indicated that he would like very much to see it, and others here, and I think at this time we may go into recess to see this picture, which takes about 18 minutes to present.

But in the meantime I want Mr. LaFortune to give the history of the picture and the background of it with which I am not familiar.

MR. LAFORTUNE: Yes. The idea back of it was presented by Ray Miller of duPont. He sold duPont on the idea of spending \$100,000 in Hollywood to make up this movie. I think you are going to enjoy it. The film will be available to anyone that wants it. I understand that the cost will be only \$60. So that is duPont's contribution to the oil industry.

I think you will all enjoy this brief movie. It can be shown in colleges and in high schools and shown with interest, because it is made up that way. You will agree with me that it has fine possibilities for our American Petroleum Institute to utilize this film wherever they think it can do a certain amount of good for our industry. I think that it is fine for all of us to see it. Actually we don't need it, but we should see to it that it reaches the mass of people. That is where it will do the greatest amount of good, education along the right line. Thank you very much.

... Showing of film "It Never Rains Oil" ...

CHAIRMAN HALLANAN: Mr. Spencer, the Chair now desires to recognize you to discuss the report of Mr. LaFortune.

MR. P. C. SPENCER: Mr. Chairman and gentlemen, I have no desire to prolong this meeting or make a speech. I don't think what I have to say is that important. Our good friend Joe, in the course of his report, brought up a subject which I think is of extreme importance to every member of this industry, particularly, and also it is of great importance to our nation, industry security, and national security, and that is the question of necessary standby facilities, and how to provide them.

I am sure what Joe had to say was given to us as a matter of information. Again I would not say anything here except as Chairman of your Transportation Committee I didn't want to be placed in the position of being estopped at some later date by my silence of today in objecting or protesting some plan for standby facilities which I or my committee might not agree to.

I think the subject is of tremendous importance and concern. It is to me personally. I tried to do something about it a year ago. Over a year ago I spoke before the National Petroleum Association on this subject of the petroleum guns and petroleum butter. I don't pretend that I found any solution to the problem. If I did anything, I

think I did perhaps accomplish something in defining the terms and the issues involved in providing petroleum guns and petroleum butter.

If we can arrive at a definition of terms and definition of issues, we at least have made some progress for the argument that is to ensue.

Now, about this proposed pipe line, the product pipe line which is to start some place along the Gulf or Texas, and go to Ohio, and then to the Atlantic Coast, as of today, without being engaged in a war or in any great defensive operation, I think we need this pipe line as much as I need a fifth or sixth or seventh wheel to my automobile. We have, I am sure, adequate supplies of all petroleum products on the Atlantic Coast, and I think most of you will agree with me that they are too damned adequate in many respects.

As to what our needs may be for a products pipe line that can carry from 500,000 barrels per day to a million barrels per day in case of war emergency, I grant all respect to our experts, but in the end only time will determine what is necessary at that time.

I want to say this, that as important as standby facilities may be in the petroleum industry, even more important, gentlemen, is the good health of our industry. The surpluses in our industry are an anathema, as you know.

That applies to all industry, but I think we are particularly sensitive to it, or at least I feel that way about it. Surpluses not properly handled or controlled are an anathema. They have a way of destroying price structures. They have a way of breaking down progress, and they can destroy an industry. It certainly would be a tragedy, gentlemen, to attempt to protect our national security by building up standby facilities which in the end make the industry so damn feeble, it could not do the job in any event.

I am talking particularly here about standby pipe line facilities. It applies with equal force to standby tanker facilities, standby refining facilities, standby storage, and if you please, standby production. It applies all through the line.

I am glad the subject came up, because I want to make a suggestion to our friends from the government here, from the Department of the Interior and the Department of Defense. For God's sake, if we are going to go into this thing, let us go at it in a realistic fashion. Let us have a study and investigation of this whole subject to see how it can be done without killing the goose that laid the golden egg. That is the danger. I don't know. I am a rank amateur as a strategist in war or logic, but it seemed to me perhaps somebody told me that the greatest cushion in the

world for petroleum reserves is in the elasticity of and the flexibility of civilian demand. Take it away from them, if we are going to have war. I think that is one of the many troubles with our Korean episode. We tried to have butter and guns at the same time. We tried to make war comfortable and convenient for civilians. I don't think that will ever work unless we are going to make war a profession, and I hope that never comes to pass. War should be tough. We should cut back the civilian demand. I think that is the greatest cushion we have.

There are some special products in aviation and others where you don't do any good by cutting back the civilian demand. That we have to take care of some way. But my God, we don't need a pipe line that will carry a half million or million barrels to the Atlantic Coast for specialties. No, we don't need that.

I used to be a lawyer in bygone days, and I ceased to have any connection with the legal fraternity at all. As a matter of fact, when I assumed my executive position, I cancelled all the opinions and rulings I put out because I didn't want to be bound by any such damn nonsense. So I am not a lawyer any more. I am trying to be a practical executive on this job. This may not be the appropriate forum for discussion of how to provide guns and butter in this petroleum industry and still maintain the good health of the

industry. But my goodness, if it is not, let us find an appropriate forum some place, because it is vital.

I would suggest to you gentlemen that have obligations and responsibilities on the government side of this, for goodness sake before you do anything that is formidable or substantial, let us think it out and let us not go off half cocked on products pipe lines, over capacity in refineries or anything else.

Thank you very much. (Applause.)

MR. ROBERT E. WILSON: Mr. Chairman.

CHAIRMAN HALLANAN: Dr. Wilson.

MR. WILSON: I would like to add a little to those comments. I think if we could be reasonably sure that the thing on which we are going to be short in the next war was petroleum transportation, we would find it very hard to put up a sound argument against it. But it seems to me that is very far from being assured. There is a great tendency among both military and civilian strategists to assume that the pattern of the next war is going to be a good deal the same as the pattern of the last war. If history teaches us anything, it is that that is not true. Germany was a great submarine nation. They expected to win the war by the use of their submarine arm. They concentrated on our tanker shipping and we did have desperate need for those pipe lines in the last war. I think

I know a little about the Russian tactical situation and I am confident that they are not relying largely on long range submarines disrupting shipping to win this coming war. They don't have the submarines, but they do have something else which is a much better attack on vital manufacturing centers than the submarines ever were on the transportation operations in the last war.

We have in our refineries almost the best target that the Russians could aim at with hydrogen bombs or atomic bombs or anything of that kind. There is tremendously greater danger that our shortage in the coming war will be of refinery capacity than means of transportation because atomic bombs are too valuable to waste on individual ships and they could not do enough damage to a pipe line or oil field to hurt it. But they can concentrate on refineries and probably will, if the Russians are as smart as some people think they are. Actually I don't think they are too smart at times, but they might realize that would be a vital spot to hit us. I think it would be a tremendous mistake for us to try to build up in this country and stand idle the tremendous number of things that you can conceive that you might need if bombing starts. But I certainly do not think that the thing we are going to need in the next war is primarily transportation facilities. If we are, the type of transportation facilities to have is flexible transportation

facilities, not facilities that run from the crude oil fields to a refinery that is going to be bombed out on the first time or to a terminal or something of that kind, but relatively old tankers that have a few years of usefulness left which might be stored away and made available for such a time, and would have the flexibility to go wherever the oil is to wherever the oil might be needed. And nobody is smart enough to say what that is.

I don't think this has been thought out. I think if we start building up all the facilities we might lose in the event of an atomic attack. The country will be bankrupt long before we get attacked. (Applause.)

MR. EUGENE HOLMAN: Mr. Chairman.

CHAIRMAN HALLANAN: Mr. Holman.

MR. HOLMAN: I would just like to add a few remarks in addition to those that have been said already. In any planned operation, whether it is military or business or anything else, the soundness of that depends a great deal on the assumptions made. What I would suggest that Joe and his associates do is to always be sure that the assumptions are sound as can be done.

Obviously I am sure that the oil industry, as any other industry, or any other citizen, is going to place national security first. But also bear in mind, as has been brought out, that security of our nation depends upon the

soundness of our own economy also.

I would like to stress particularly that it is awfully important that in any of our planning we be sure that the assumptions are as sound as can be made. (Applause.)

CHAIRMAN HALLANAN: The Chair recognizes Hargrove.

MR. R. H. HARGROVE: Mr. Chairman and gentlemen, there have been several references this morning to personal bravery and things that were going to be said, but I think for a gas man to stand up and attempt to say anything at all on this subject, after the talented oil men who have preceded me, would put me at the pinnacle of bravery.

I feel I have some responsibility in this matter because our company is now operating as gas carriers the crude oil and products pipe line that we built during the World War II emergency. We have certain responsibilities with respect to those lines under what has been known as the recapture clause, and I think it would be appropriate, if I may have a very few minutes, to bring you down to date on those subjects.

Briefly, the lines that were acquired by our company contained a provision that the Secretary of War, and I presume now the Secretary of Defense, would have this right, could call upon us on certain notice to reconvert those lines, or either of them, to the use for which they were originally constructed.

After we acquired the lines and converted them to gas usage, we realized that to comply with that obligation from the standpoint of the physical changes might not be difficult, but from the economic changes, that certain grave problems would be posed. These lines are supplying gas primarily to the Appalachian and Eastern Seaboard area. There have been periodic inspections by the Quartermaster General's department as to the lines and as to the compliance by our company of our obligations to stand ready to convert. I think I may be pardoned if I say that those inspections have been followed by reports which gave us complete clearance with respect to those obligations.

When the Korean crisis occurred, various industry committees began to be formed to devise ways and means of how these lines could be returned, one or either of them, to their original service. A number of you who are here I identify as discussing those matters with me to some extent.

Subsequently, the PAD became of course involved in that problem, and I think one of the first things that Bruce Brown from the gas industry had was probably a visit from me to discuss that situation. The matter did not appear to be particularly active, despite the various studies that were made, but we felt that we should go ahead with studies on our part to see what could be done to take care of the gas load if these lines were converted.

With that in mind, and particularly in view of some approaches that were made to us by PAD in the early part of this year, we intensified those studies and certain aspects of them are still under way. Without going into a great deal of detail, it would be possible for us, given the required amount of steel and a reasonable time to handle our responsibilities in the natural gas end of our business by other facilities, and free either one of these lines. To free both of them would be a very much greater undertaking.

It was our thought that if there was an impelling need for one of these lines to be made available in the event of an emergency that we should go beyond the point to which we had gone and explore the possibility of anticipating that to some extent to find out if there was a peacetime requirement for one of these lines that could be later dovetailed into an emergency situation.

Our thinking along that line was somewhat stimulated by the fact that there were several other projects proposed for completely new products lines to come from the Gulf Coast to the Eastern Seaboard. We quickly concluded, rightly or wrongly, that if the crude oil transportation was the problem, that the use of our lines was not a very satisfactory way to try to solve it.

There were many reasons for that. One is the uncertainty of the source of supply. The others you would know

much better than I, and there is no need for me to belabor the point.

We did feel, however, that there was some possibility that the products line could be reconverted to its original use without disruption of the oil business or the gas business, and putting it in a better position in the event of an emergency which might require its use in that capacity.

What we can do is enlarge other gas facilities of ours which are not subject to the recapture clause and bring gas up through those routes, and free the products line to be returned to its original use.

Our studies along that line -- and again I plead complete ignorance of the business that most of you gentlemen are engaged in, except to the very superficial extent that I may have had other reports available to me -- but in our studies we have been aided not only by our own organization, but consultants who have had some experience in it, and they have led us to believe that it might be economic in the peacetime economy to reconvert the products line into the interior of what might be generally known as the Pittsburgh area with terminals on the Mississippi River and the Ohio River.

We have not so far been able to see how it would be economic to undertake that all the way over the Eastern

Seaboard in competition with the tanker movement.

Our conclusions are by no means final on it. We have not been thinking along the lines of a government subsidy. We expected of course if we did the job to have the benefit of such things as rapid amortization that might be available to other products of a like nature. Beyond that we were thinking in no way of any government subsidy.

We were also thinking of what might be regarded as a modest conversion, the initial step. The products line, many of you will remember, was in some respects unsatisfactory due to defective welding of the pipe. All of it has been fixed up. The line is in excellent condition, and is able to operate at higher capacities. Our studies indicate it will have a capacity of approximately 230,000 barrels per day if it was powered to its economic limit.

Our thinking was that initially it would probably not be more than half that amount. But that there would be an opportunity to find a peacetime use of it that would fit in with what would be a constructive and not a destructive movement in either industry, and at the same time would afford a means of perhaps not a complete, but a substantial movement toward what an emergency situation might require. If that step were done, and we stopped it in the Pittsburgh area, and an emergency required it to go to the Eastern Seaboard, we would be then faced with something like 250 or

300 miles of line which of course could be done much more quickly than the entire job.

Our plans are still in the exploratory stage. We have nothing to say. We have had representatives discussing the situation with a number of the marketers and refiners who are here today. I just felt in view of the trend that this discussion had taken, that it would be appropriate to make mention of what we were doing. (Applause.)

CHAIRMAN HALLANAN: Thank you very much.

MR. JACOB BLAUSTEIN: Mr. Chairman.

CHAIRMAN HALLANAN: Mr. Blaustein.

MR. BLAUSTEIN: I will speak from here and be brief.

I assume if this big investment were made in this proposed pipe line that certainly it would not be kept only for standby facility, that there would be some use necessary during peacetime. I am wondering if Mr. LaFortune's group gave any consideration to the effect that would have on the American tanker fleet? It seems to me that in war we need an American tanker fleet, and the American tanker fleet now, and I mean the buildings and the operators are having all the time they can have to keep going as is with competition from government and with the foreign flag operations. It certainly seems to me that along the lines expressed by Mr. Spencer, that a study ought to be made of this whole situation, taking all those kinds of factors into consideration

before any definite effort is made with respect to that pipe line.

MR. ROBERT O. ANDERSON: Mr. Chairman, I feel very much as Mr. Spencer stated that what we need to do is study our own situation. There are some basic assumptions, right or wrong, we are going to be able to make. Whether we are going to look to foreign oil during a war, we should have one course of approach, and the other is this million barrel reserve capacity we are trying to build toward. There is no question in a wartime economy that our present yields would be shifted. It would be shifted to whatever one wanted to make. During the last war, and I think it would be almost a certainty again, the residual fuel picture changed enormously. It is quite possible that what we are trying to achieve could be done with simple additional skimming facilities. It would be a fraction of the expense as compared to trying to build a million barrels a day of reserve.

I don't think the operating in normal times would be as great because skimming facilities are not economically an attractive picture. The whole industry has to decide what the problem is. I am sure that the assumption that we are going to be doing the same thing only on a bigger scale in wartime is erroneous, because our yield undoubtedly is going to change enormously, and then it becomes a very basic question if we are going to be able to maintain the oil

for the refining capacity we have. If we don't, where is the capacity going to be concentrated, and which is going to be operated. As Dr. Wilson pointed out, once you have it, it all boils down to transportation and getting it to its destination.

I think an overall study at this time would be the best thing that could be done to keep us from making a mistake.

CHAIRMAN HALLANAN: Any further discussion, gentlemen?

(No response.)

CHAIRMAN HALLANAN: Mr. LaFortune, would you like some rebuttal now?

MR. LAFORTUNE: ~~Yes.~~ "Gentlemen, this was given to you today to let you know that a certain amount of interest is being developed here in Washington towards the possibility of some pipe line. Our defense mobilization heads think in terms of tankers being sunk in the event of war. All these tankers that move from the Gulf Coast to the East Coast carrying the necessary crude oil to our east coast refineries are subject to being sunk like they were in the last world war. They are certainly not going to come to you and ask you to do this, to put in a pipe line of a million barrel capacity, or two pipe lines of that capacity, if it is something that is not practical. They are putting it out

to you to see whether any of you might be interested in setting up something that would be operating during peacetime, built during peacetime, and operated successfully and profitably, and have that facility available in the event of an emergency.

" If you find upon study that it is not practical, you will take care of it just like you do everything else. You will forget about it. If others find that they can set up a profitable products line and operate it successfully, I see no reason why it should not be operated. It adds to our transportation facilities.

" In regard to Mr. Blaustein, he asked if the matter of tankers is being considered. I can tell you yes, they are being considered. They consider tankers a valuable asset. I think the government is willing, if this thing gets under way in any way, shape or form, either small or large, to do its part towards helping you, as an individual, you as a company, or you collectively. I have intimated to them that I doubt very much whether the oil industry will go into this collectively. Individually there is a possibility. As you know, there are two projects. You have heard from one here this morning. There is still another one being considered, which all adds up to certain possibilities as far as our Office of Defense Mobilization thinking is concerned, and that is, can such a thing be done and done

successfully? I assure you that our government is not trying to ask you to do something that is unprofitable or would be unsuccessful. They are trying to bring up something here that they think will be helpful to our country in the event of an emergency.

" If it is unpractical, gentlemen, you can forget about it. If some of you find that you can operate a line from the Gulf Coast to the East Coast profitably, I think it would be appreciated, I think the government will cooperate with you in every way it possibly can, including the tanker situation, Mr. Blaustein.

" We have certain thoughts, and I have had them expressed, and I assure you that the government now is giving the oil industry certain consideration and certain thoughts on the tanker situation which you are aware of. That can be increased. I can assure you that there is no effort on the part of any government agency here to force any issue whatsoever. They are absolutely doing the best they can, and the matter was put here just to let you know that they are thinking this way, and perhaps they might get a good suggestion. We might get some favorable reaction.

// I would like to know if there are any other questions. I will try to answer them to the best of my ability. This is just one of the things that come before us in the PAD, and we have to do the best we can. I did not

want to hide a single thing from any of you. That is why I have given it to you this morning."

MR. ALTON JONES: "May I ask this question to clear my own thinking. We have been doing some general talking here about the assumptions first that have been made by the Office of Defense Mobilization, and what may be needed in the event of war in the way of additional transportation facilities. Officially we have nothing before this Council to act on. I agree with Mr. Spencer it is a subject that is of vital interest to this industry. It is hard for me first to visualize the creation of a peacetime facility that would fit into our peacetime economy that could be quickly taken out of the peacetime economy operation and shoved into a war economy, without dislocating the gas situation, we will say, or the oil situation, very much as Mr. Hargrove suggested it would do if they take the Big Inch Lines out of operation.

"In other words, if we build another million barrels of pipe line capacity to the East Coast, and put it into peacetime operation, how can we disengage it, if you please, Joe, and put it into a wartime operation when the emergency comes? That is question No. 1.

"The main question to which I wish to address myself is this: How can this Council come to grips with this problem or should we try? First, it has to become,

as you know, Joe, as a request from the Secretary or from you or the Oil and Gas Division for advice and counsel. Then the Agenda Committee has to consider whether or not it is appropriate to deal with.

"I would like to address myself, Mr. Chairman, to this question: How do we get this thing into the mill? I think it is (all important that the Office of Defense Mobilization not make some wrong assumptions, and if we can help them with our thinking, let us do it. But how do we get where we ought to go? We are not getting there fast swapping views. I agree with Spencer and Gene that we must not jump to the wrong assumptions and not let Flemming do it if we can help it. As citizens we don't want the Defense Department to leave undone anything they should do to prepare for war. We don't want to wait for war until we build an airplane. I am a little puzzled as to how we would fit this thing into our peacetime economy, and jerk it out overnight. That bothers me. I don't understand it.

"You might ask Mr. Hargrove to pull his facilities out and make them available for war, but he can't do that."

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CHAIRMAN HALLANAN: "Mr. Jones, answering your parliamentary inquiry, at least, this matter was thrown out here by Mr. La Fortune in his remarks. Mr. Spence, as Chairman of the Council's Transportation Committee, asked the privilege of addressing himself as an individual member

of the Council on the subject. So we have gone on because it was thrown out here, and discussions have been more or less ex parte, and informal.

" We all agree that if it comes to any official action by the Council that it must follow the procedure of a request from a proper officer of the government directed to the Chairman of the Council, and in turn considered by the Agenda Committee, that the subject would be given official consideration.

" We have known that this thing has been in the air and frankly I do not regret the fact that it has invited this discussion here today. I think it has been helpful."

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MR. ALTON JONES: " Nor do I. Let us get in the groove!"

CHAIRMAN HALLANAN: We can only get in the groove in the event the request comes to us.

MR. A. JACOBSEN: " I would like to ask Mr. Hargrove a question. As I understand it, the tentative proposition that you spoke of was to reconvert the Little Big Inch from gas back to product, and you would then take care of the gas requirements through other means. That Little Big Inch line now is the property of Texas Eastern Gas Transmission Corporation. If your tentative plan were to go through, would you then build a gas line parallel to the existing two lines?"

" The second question is more important. What would happen to the Little Big Inch line which now is your property, and which would be reconverted back to a product line? Would that belong to the government? Would the government operate it as a pipe line? Would the government be in the pipe line business, or do they want to set it up by the oil industry? "

MR. HARGROVE: " To answer the first question, we would not parallel the Little Big Inch line. We would come up in another direction by enlargement of a line we built last year which follows a route more easterly from there.

" The second question, the line would not be the property or operated by the government. It would be operated under our thinking by Texas Eastern or a subsidiary, more likely the latter, of course, because of the regulatory aspects involved. But it would in no way be a government venture. "

~~CHAIRMAN HALLANAN: Any further discussion~~

MR. GORDON DUKE: " Mr. LaFortune invited a question. Would you amplify your remark that the government has given some thought to this tanker problem. None of us, I believe, is familiar with anything more than a mothballing of a few boats. If there is any other consideration given, I have never read of it in the trade paper. "

MR. LaFORTUNE: "I read in the trade papers where they are trying to work out a deal on tankers to retire tankers that are ten years or twelve years old."

MR. DUKE: "Mr. LaFortune, that does not involve in so far as I know any reduction. It simply involves a new building program, and a retirement from active service an equivalent amount of tonnage. It does not take one single ton, so far as I know, off the market. If there were a pipe line built or pipe lines, which would displace 60 or 70 tankers, American tankers now running that route, it does not seem to me that the nation is getting any additional defense facilities, because there will be just that many tankers that have to go out of service."

MR. LaFORTUNE: "This situation is this: We have mentioned it to have you give it your consideration. That is all. Also, to let you know that it is of importance to the Office of Defense Mobilization. If something develops out of it, that is fine. As I mentioned to you a moment ago, if nothing develops that is as far as we can go."

MR. ROBERT E. WILSON: "I might say that the worst bust made in the last war was the building of the California project, because it did not have such study. Somebody looked at something, and they conceived some situation that would put all the tankers on the West Coast out of business and wasted a tremendous amount of money

because simply nobody bothered to consult those concerned with it. It took scarce materials and manpower to build a line, and yet a single tanker could have carried all the oil that carried and would have had tremendously greater flexibility.

" I would like to emphasize what Mr. Holman said, emphasizing the importance of assumptions. It is very easy for everybody to get excited as to what would happen if this kind of attack came. You must consider all the attacks. People say this came from the Defense Department. Actually if you looked at it, you would find that a few colonels sitting around a desk got out a report and passed it on to the brass. But it does not represent a balanced view of intelligent men of what would probably happen in the event of another war."

MR. SPENCER: " Joe says he threw this out on the table as a matter of information. Perhaps somebody in the industry will be willing to pick it up and build such a line. If they were so disposed, they would find a welcome in certain defense areas in our government. The thing I want to say is this. You might, for example, get the government to put in some money on such a project. You might grant accelerated amortization. You might build it up with government subsidies and whatnot, so that it would be economically profitable to the particular company or individuals

that went into it. But at the same time through that government subsidy, you would weaken all the rest of the industry in so doing. That is the thing we have to watch."

CHAIRMAN HALLANAN: Mr. Jennings.

MR. B. BREWSTER JENNINGS: "Mr. Chairman, I thought I might make one or two observations based on my recollection of what happened in World War II, because I think a lot of the discussion here this morning indicates that this problem is being viewed a little differently from what we viewed it at that time.

"The fact is that as soon as we were able to operate naval convoys on the Atlantic Coast, which occurred about the 25th of April in 1942, we had no problem at all in moving tankers. The reason that the Big Inch line was built was not because we could not move our oil coastwise. It was because when we worked it all out, we found that for a ton of steel, and also a unit of time by building that line we could free up a greater number of ships to trade over the oceans than we could by any other means.

"I suggest that if this line had been in existence before World War II broke out, we would have been in much worse shape. We would not have had the ships. We would not have had the alternative to make the ships available by building the line. I just wanted to make that point." (Applause)

MR. SWENSRUD: "I would like to raise the question

of whether it would be proper to permit 100 per cent amortization of a line of this character, singling out some one project, whereas the general rule, I believe, is that you will only permit a rather small fraction of an ordinary pipe line to receive accelerated amortization. Whether or not this project might be a useful one is beside the point. It seems to me that every transportation facility that is added must be regarded as adding to our transportation capacity which would be useful in time of war. We are participating in a pipe line going from Port Arthur to Baton Rouge, which eliminates the tanker movement down around the Delta and Mississippi. It eliminates probably more in tanker per barrel mile in capacity than this one would so far as dependence on tankers is concerned. It seems to me it would be discriminatory to single out one transportation project to be the recipient of a special amortization arrangement as compared with all other transportation facilities."

CHAIRMAN HALLANAN: Any further discussion?

MR. PAUL G. BLAZER: "I noted that in these various assumptions both as regards the building of a pipe line all the way through from the Gulf to the East Coast, or the conversion of the gasoline from the Gulf Coast to Pittsburgh and the Ohio area, there is the assumption as regards the interior, that there is a demand for transporta-

tion that is not now being satisfied. My observation as an operator in that area is that there is just as great a surplus of gasoline in Pittsburgh and in Ohio as there is in the Gulf Coast, and that it does not appear to me that it would be possible to build the Little Inch except through the assumption that another couple of hundred thousand barrels of refining capacity in the area under discussion would be curtailed or shut down.

// From the standpoint of security, I call attention to the fact that the greatest shortage that we have in petroleum products in the interior area was the shortage of fuel oil and particularly heavy fuel. Even as recently as since the end of World War II, we have had shortages in Ohio which resulted in our purchasing fuel oil in California, bringing it by tanker to the lower Mississippi River and by barge up the Mississippi River, and by truck to Youngstown. There was no such shortage of refined product in that area.

✓ I would anticipate that if we had an emergency the one thing that might be the most important would be the supplying of the steel industry with adequate fuel oil because there are a lot of things we don't know about the next war. I think we are justified in assuming that there will be great demands on the steel industry and the steel industry will make great demands on the oil industry for fuel.

When you consider the bringing of refined product into Ohio and Western Pennsylvania, which is the greatest area in the country from the standpoint of steel, you then must eliminate the bringing of a substantial amount of crude oil into that area, which moves at the present time -- I am talking about heavy fuel oil -- and the cheapest and most efficient and economical method of moving heavy fuel into that area is in the form of crude oil.

'/ If you brought the refined products in without the crude, then you immediately have a serious problem of how you are going to get that fuel oil in there economically. At the present time there is no substantial movement, and probably no movement at all, of gasoline into Pittsburgh from the Gulf Coast, but there still is a substantial movement of heavy fuel from the Gulf Coast.

' I still think that those who are assuming that they can convert or build a new products line into that area are basing it on assumptions that won't stand up from the standpoint of economics, because that refining capacity in that area will not bow out. To the extent it is reduced, it will bring a higher price in Ohio and Pennsylvania on heavy fuel, and they would soon be selling their gasoline in that area at a lower price than sold on the Gulf Coast today. As a matter of fact, the wholesale price of gasoline in the Upper Ohio River is a very small fraction of a cent higher

than the price on the Gulf Coast. I don't think it would be economical to make that movement through a products pipe line. 1/

CHAIRMAN HALLANAN: Is there any further discussion, gentlemen? If not, I wish to call at this time upon Mr. Hugh Stewart, Director of the Oil and Gas Division. Mr. Hugh Stewart.

MR. HUGH STEWART: Mr. Chairman and gentlemen, I have sat through a lot of these sessions. This is the first time in a good many sessions where I have even accepted an invitation to get on my feet. But you have read in the papers a lot about the demise or the liquidation or the withering away of PAD. From the particular point I view the whole problem, with a certain amount of authority still left in PAD and still required, I think that the liquidation could be premature. On the other hand, with our principal defense mobilization requirements being gradually met, it is entirely probable that before too long PAD could be appropriately and properly liquidated.

It was for that reason that we asked the Council to make a study of a successor organization if it considered such a successor organization desirable. We used the term the Oil and Gas Division because that had been the focal point for the government-industry contact before Korea. It would probably prove to be as effective a focal point after the

need for a PAD.

The Council has accepted that request, and out of it I hope we will get the typical Council report that gets down to brass tacks and says just exactly what they need with the recommendations which will serve the Secretary in good stead in any future planning he has to do.

I tagged on a phrase that a prompt study would be desirable. I didn't mean to say that I thought PAD was going to fold up before Armistice Day, but that if that study could be made now, and a report brought in in the meeting presumably early in December, there would be ample time for the Secretary to make the necessary studies and the necessary plans and work out the necessary financial requirements so that he could make his request for an appropriation for the continuing organization.

We have had from the Secretary a very generous allotment to carry PAD through this fiscal year. Probably those funds, if any were unexpended, could be used to carry on the residual requirements of an Oil and Gas Division. New appropriations would be required, of course, for next year, and the budget requests have already gone in. So I am hopeful that we will have a report with the recommendations on the type, the function and the staffing that the Council thinks would be most effective and that we have that done December.

I want to express the real pleasure that I have had and the good I think I have gotten out of sitting through Council meeting after Council meeting, and sitting in Interior alongside of the PAD staff. I have been a part of the staff. In that the active operating men have carried the principal burden. I thoroughly enjoyed working with them and enjoyed watching them. From a position that is not as thoroughly PAD as Ray Jackson's, for example, or Ed Warren's, I can assure you that the gang did one whale of a good job. If anybody thinks that a government bureaucrat sits around with his feet on his desk reading last month's magazine, you ought to come around and watch these guys work. They do a pretty fair job. (Applause.)

CHAIRMAN HALLANAN: Thank you.

Gentlemen, is there any further business? If not a motion to adjourn is in order.

MR. JONES: I so move.

CHAIRMAN HALLANAN: Mr. Jones moves we adjourn.

All in favor say "aye".

... The motion was carried...

... The meeting of the National Petroleum Council was concluded at 12:50 o'clock p.m. ...