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OFFICIAL REPORT OF PROCEEDINGS

BEFORE THE

DEPARTMENT OF THE INTERIOR

DOCKET NO.__________

In the Matter of:

MEETING OF NATIONAL PETROLEUM COUNCIL

Place Washington, D. C.

Date Thursday, July 13, 1967

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C O N T E N T S

UNITED STATES DEPARTMENT OF THE INTERIOR

MEETING OF NATIONAL PETROLEUM COUNCIL

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Conference Room A and B
Departmental Auditorium
Department of the Interior
Washington, D. C.

Thursday, July 13, 1967.

The meeting was convened at 9:00 o'clock a.m., J. C. Donnell, II, Chairman, National Petroleum Council, presiding.

PARTICIPANTS PRESENT:

Jack H. Abernathy,
Big Chief Drilling Company

Robert O. Anderson,
Atlantic Richfield Company

Roy T. Durst,
Fort Worth National Bank Building

Elmer E. Batzell
Batzell & Nunn

Carrol M. Bennett,
Texad Pacific Oil Company

Fred E. Bergfors, Sr.,
Quincy Oil Company

H. Harold Bible,
Lion Oil Company

Jacob Blaustein,
American Trading and Production Corporation

Richard J. Murdy,
Consolidated Natural Gas Company

Howard Boyd,
El Paso Natural Gas Company

Reid Brazell,
Leonard Refineries, Inc.

PARTICIPANTS PRESENT (Continued):

E. D. Brockett,
Gulf Oil Corporation

Bruce K. Brown,
International Trade Mart

M. C. Browning,
National Oil Jobbers Council, Inc.

George H. Bruce,
National Stripper Well Association

E. O. Buck,
Texas National Bank of Commerce

John L. Burns,
Cities Service Company

F. Allen Calvert, Jr.,
Independent Petroleum Association

Sam H. Casey,
Commonwealth Oil & Refining Company, Inc.

R. Eugene Chambers,
Armour Properties

Boyce R. Clark,
National Tank Truck Carriers, Inc.

J. C. Donnell, II,
Marathon Oil Company

Rollin Eckis,
Western Oil and Gas Association

Elmer R. Erickson,
Northwestern Refining Company

Stark Fox,
Independent Oil & Gas Producers of California

George P. Garver,
Natural Gas Pipeline Company of America

George F. Getty, II,
Tidewater Oil Company

PARTICIPANTS PRESENT (Continued):

John F. Lynch,
Texas Eastern Transmission Corporation

Ernest L. Williams,
The Louisiana Land and Exploration Company
J. K. Jamieson,
STandard Oil Company (N. J.)

Jake L. Hamon,
Dallas, Texas

John Harper,
Harper Oil Company, Inc.

Alvin C. Hope
San Antonio, Texas

Robert A. Hornby, (represented by unidentified member.)
Pacific Lighting Gas Supply Company

P. N. Howell,
Howell Refining Company

John G. Hurd,
Laredo, Texas

Frank N. Ikard,
American Petroleum Institute

Harry A. Jackson,
American Petrofina, Incorporated

J. Paul Jones,
Pennsylvania Grade crude Oil Association

W. W. Keeler,
Bartlesville, Oklahoma

John M. Kelly,
Petroleum Consultant

Alfred A. Kiltz
Mt. Vernon, Indiana

Stanley Learned,
Phillips Petroleum Company

Walter J. Levy,
New York, New York

PARTICIPANTS PRESENT (Continued):

Harvey R. Fifer,
National Bulk Carriers, Inc.

H. M. McClure, Jr.,
McClure Oil Company

E. H. McCollough,
Amerada Petroleum Corporation

Ricahrd C. McCurdy,
Shell Oil Company

D. A. McGee, (represented by an unidentified member)
Kerr-McGee Corporation

E. Clyde McGraw,
Transcontinental Gas Pipe Line Corporation

John W. Mecom,
Houston, Texas

Don H. Miller,
Skelly Oil Company

Otto N. Miller,
Standard Oil Company of California

Ellis Mills,
Association of Oilwell Servicing Contractors

R. J. Moran,
American Assocaition of Oilwell Drilling Contractors

A. L. Nickerson,
Mobil Oil Corporation

S. F. Niness,
Chemical Leaman Tank Lines, Inc.

Cecil J. Olmstead,
Texaco Inc.

C. Pratt Rather, (represented by an unidentified member)
Southern Natural Gas Company

A. S. Ritchie,
Wichita, Kansas

PARTICIPANTS PRESENT (Continued):

Fred H. Robinson,
Panhandle Eastern Pipe Line Company

Arch H. Rowan,
Rowan Drilling Company, Inc.

Thomas J. Scott,
New England Fuel Institute

Wilton E. Scott,
Tenneco Oil Company

J. L. Sewell,
Mid-Continent Oil & Gas Assocaition

Forrest N. Shumway,(represented by an unidentified member
Signal Oil and Gas Company

William Wikoff Smith,
Kewanee Oil Company

Charles E. Spahr,
The Standard Oil Company (ohio)

N. A. Steed,
Texas Independent Producers & Royalty Owners Association

E. L. Steiniger,
Sinclair Oil Corporation

W. A. Strauss,
Northern Natural Gas Company

Paul E. Taliaferro,
Sunray DX Oil Company

A. W. Tarkington,
Continental Oil Company

Van Thompson,
Astec Oil & Gas Company

H. A. True, Jr.,(represented by an unidentified member)
True Oil Company

W. M. Vaughey,
Vaughey and Vaughey

PARTICIPANTS PRESENT (Continued):

R. L. Vockel,
The Waverly Oil Works Company

H. F. Wagner,
Farmers Union Central Exchange, Inc.

J. Ed Warren,
New York, New York

Everett F. Wells,
Ashland Oil & Refining Company

S. D. Whiteman,
Kansas-Nebraska Natural Gas Company, Inc.

John Wrather,
John Wrathers, Inc.

M. A. Wright,
Humble Oil & Refining Company

DEPARTMENT OF THE INTERIOR:

Hon. J. Cordell Moore,
Assistant Secretary, Mineral Resources

OFFICE OF OIL AND GAS:

Admiral Onnie P. Lattu,
Director

NATIONAL PETROLEUM COUNCIL:

Vincent M. Brown,
Secretary-Treasurer

ALSO PRESENT:

Honorable Stewart L. Udall,
Secretary of the Interior

Gardner Ackley,
Chairman,
President's Council of Economic Advisers

Donald F. Hornig,
Director,
Office of Science and Technology

PARTICIPANTS PRESENT (Continued):

ALSO PRESENT (Continued):

Fowler W. Martin,
Commander,
Defense Fuel Supply Center

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PROCEEDINGS

CHAIRMAN DONNELL: Members of the Council, I appreciate your coming at 9:00 o'clock on such short notice. I think most everyone is here.

The Secretary has an engagement on the Hill early this morning, and it is for that reason that the meeting was moved from 9:30 to 9:00 o'clock.

We will have the roll-call by the Secretary.

MR. BROWN: Mr. Abernathy?

MR. ABERNATHY:

MR. BROWN: Mr. Anderson?

MR. ANDERSON: Here.

MR. BROWN: Mr. Baldridge?

(No response.)

MR. BROWN: Mr. Bass?

MR. DURST: For Mr. Bass.

MR. BROWN: Mr. Batzell?

MR. BATZELL: Here.

MR. BROWN: Mr. Bennett?

MR. BENNETT: Here.

MR. BROWN: Mr. Bergfors?

MR. BERGFORS: Here.

MR. BROWN: Mr. Bible?

MR. BIBLE: Here.

MR. BROWN: Mr. Blaustein?

MR. BLAUSTEIN: Here.

MR. BROWN: Mr. Borger?

MR. MURDY: For Mr. Borger.

MR. BROWN: Mr. Boyd?

MR. BOYD? Here.

MR. BROWN: Mr. Brazell?

MR. BRAZELL: Here.

MR. BROWN: Mr. Brockett?

MR. BROCKETT: Here.

MR. BROWN: Mr. Brown?

MR. BROWN: Here.

MR. BROWN: Mr. Browning?

MR. BROWNING: Here.

MR. BROWN: Mr. Bruce?

MR. BRUCE: Here.

MR. BROWN: Mr. Buck?

MR. BUCK: Here.

MR. BROWN: Mr. Burns?

MR. BURNS: Here.

MR. BROWN: Mr. Calvert?

MR. CALVERT: Here.

MR. BROWN: Mr. Casey?

MR. CASEY: Here.

MR. BROWN: Mr. Chambers?

MR. CHAMBERS: Here.

MR. BROWN: Mr. Chandler?

(No response.)

MR. BROWN: Mr. Clark?

MR. CLARK: Here.

CHAIRMAN DONNELL: Mr. Clar, will you plese stand? Mr. Clark is a new member and he is President of the National Tank Truck Carriers, Incorporated.

MR. BROWN: Mr. Donnell?

CHAIRMAN DONNELL: Here.

MR. BROWN: Mr. Eckis?

MR. ECKIS: Here.

MR. BROWN: Mr. Elliott?

(No response.)

MR. BROWN: Mr. Erickson?

MR. ERICKSON: Here.

MR. BROWN: Mr. Foree?

(No response.)

MR. BROWN: Mr. Fox.

MR. FOX: I am here, Mr. Secretary. I would like to interrupt the roll call for a moment, and direct a request to the Chairman.

I would like five minutes' time at the appropriate time, and preferably before the Government people leave, because I would like to talk to them as well as to the Council about the price of crude oil which is considered to be completely unsatisfactory.

MR. BROWN: Mr. George Garver?

MR. GARVER: Here.

CHAIRMAN DONNELL: Mr. Carver, would you please stand? Mr. Garver is a new member of the Council and is President of the Natural Gas Pipeline Company of America.

MR. BROWN: Mr. Getty?

MR. GETTY: Here.

MR. BROWN: Mr. Gonzales?

MR. GONZALEZ: Here.

MR. BROWN: Mr. Goodrich?

MR. LYNCH: For Mr. Goodrich.

MR. BROWN: Mr. Graham?

MR. WILLIAMS: For Mr. Graham.

MR. BROWN: Mr. Haider?

MR. JAMIESON: For Mr. Haider.

MR. BROWN: Mr. Hamon?

MR. HAMON: Present.

MR. BROWN: Mr. Harper?

MR. HARPER: Here.

MR. BROWN: Mr. Hartley?

(No response.)

MR. BROWN: Mr. Hope?

MR. HOPE: Here.

MR. BROWN: Mr. Hornby?

A VOICE: For Mr. Hornby.

MR. BROWN: Mr. Howell?

MR. HOWELL: Here.

MR. BROWN: Mr. Hurd?

MR. HURD: Here.

MR. BROWN: Mr. Ikard?

MR. IKARD: Here.

MR. BROWN: Mr. Jackson?

MR. JACKSON: Here

MR. BROWN: Mr. Jones?

MR. JONES: Here.

MR. BROWN: Mr. Keeler?

MR. KEELER: Here.

MR. BROWN: Mr. Kelly?

MR. KELLY: Here.

MR. BROWN: Mr. Kiltz?

MR. KILTZ: Here.

MR. BROWN: Mr. Learned?

MR. LEARNED: Here.

MR. BROWN: Mr. Levy?

MR. LEVY: Here.

MR. BROWN: Mr. Loomis?

(No response.)

MR. BROWN: Mr. Ludwig?

MR. FIFER: For Mr. Ludwig.

MR. BROWN: Mr. McClure?

MR. MC CLURE: Here.

MR. BROWN: Mr. McCollough?

MR. MC COLLOUGH: Here.

MR. BROWN: Mr. McCurdy?

MR. MC CURDY: Here.

MR. BROWN: Mr. McGee?

A VOICE: For Mr. McGee.

MR. BROWN: Mr. McGraw?

MR. MC GRAW: Here.

MR. BROWN: Mr. Marshall?

(No response.)

MR. BROWN: Mr. Mecom?

MR. MECOM: Here.

MR. BROWN: Mr. Miller? (C. W. Miller.)

(No response.)

MR. BROWN: Mr. Miller? (Otto N. Miller.)

MR. OTTO N. MILLER: Here.

CHAIRMAN DONNELL: Mr. Miller, would you please stand? Mr. Miller is a new member and Chairman of the Board of the Standard Oil Company of California.

MR. BROWN: Mr. Ellis Mills?

MR. MILLS: Here.

CHAIRMAN DONNELL: Mr. Mills is the President of the Association of Oilwell Servicing Contractors and a new member of the Council.

MR. BROWN: Mr. Moran?

MR. MORAN: Present?

MR. BROWN: Mr. Murphy?

(No response.)

MR. BROWN: Mr. Nickerson:

MR. NICKERSON: Here.

MR. BROWN: Mr. Nielson?

(No response.)

MR. BROWN: Mr. Niness?

MR. NINESS: Here.

MR. BROWN: Mr. Parkes?

(No response.)

MR. BROWN: Mr. Parten?

(No response.)

MR. BROWN: Mr. Partridge?

(No response.)

MR. BROWN: Mr. Potter?

(No response.)

MR. BROWN: Mr. Rambin?

MR. OLMSTEAD: For Mr. Rambin.

MR. BROWN: Mr. Rather?

A VOICE: For Mr. Rather.

MR. BROWN: Mr. Ritchie?

MR. RITCHIE: Here.

MR. BROWN: Mr. Robineau?

(No response.)

MR. BROWN: Mr. Robinson?

MR. ROBINSON: Here.

MR. BROWN: Mr. Rodman?

(No response.)

MR. BROWN: Mr. Rowan?

MR. ROWAN: Here.

MR. BROWN: Mr. Scott? Mr. Thomas J. Scott?

MR. SCOTT: Here.

MR. BROWN: Mr. Wilton E. Scott?

MR. SCOTT: Here.

MR. BROWN: Mr. Sewell?

MR. SEWELL: Here.

CHAIRMAN DONNELL: Mr. Sewell is a new member of the Council, and President of Mid-Continent Oil & Gas Association.

MR. BROWN: Mr. Shumway?

A VOICE: I am representing Mr. Shumway.

MR. BROWN: Mr. Smith?

MR. SMITH: Here.

MR. BROWN: Mr. Spahr?

MR. SPARH: Here.

MR. BROWN: Mr. Steed?

MR. STEED: Here.

CHAIRMAN DONNELL: Mr. Steed, a new member of the

Council, is President of Texas Independent Producers & Royalty Owners Association.

MR. BROWN: Mr. Steiniger?

MR. STEINIGER: I am here.

MR. BROWN: Mr. Strauss?

MR. STRAUSS: Here.

CHAIRMAN DONNELL: Mr. Strauss, a new member of the Council, is President of Northern Natural Gas Company.

MR. BROWN: Mr. Swearingen?

(No response.)

MR. BROWN: Mr. Taliaferro?

MR. TALIAFERRO: Here.

MR. BROWN: Mr. Tarkington?

MR. TARKINGTON: Here.

CHAIRMAN DONNELL: Mr. Tarkington, a new member of the Council, is President of the Continental Oil Company.

MR. BROWN: Mr. Thompson?

MR. THOMPSON: Here.

MR. BROWN: Mr. True?

A VOICE: For Mr. True.

MR. BROWN: Mr. Van Gorkom?

(No response.)

MR. BROWN: Mr. Vaughey?

MR. VAUGHEY: Here.

MR. BROWN: Mr. Vockel?

MR. VOCKEL: Here.

MR. BROWN: Mr. Wagner?

MR. WAGNER: Here.

MR. BROWN: Mr. Warren?

MR. WARREN: Here.

MR. BROWN: Mr. Wells?

MR. WELLS: Here.

MR. BROWN: Mr. White?

(No response.)

MR. BROWN: Mr. Whiteman?

MR. WHITEMAN: Here.

MR. BROWN: Mr. Williams?

(No response.)

MR. BROWN: Mr. Wimberly?

(No response.)

MR. BROWN: Mr. Winger?

(No response.)

MR. BROWN: Mr. Wrather?

Mr. wrather: Here.

MR. BROWN: Mr. Wright?

MR. WRIGHT: Here.

There is a quorum, Mr. President.

CHAIRMAN DONNELL: You have all received the copies of the minutes of the last meeting which was held on January 31st. If there are no corrections or additions, they will stand approved as mailed to you.

Mr. Bruce Brown~~ing~~, would you please present the Memorium for Mr. Anderson? I am sorry -- for Mr. Majewski.

MR. BROWN~~ING~~: Gentlemen, the Resolution in Memorium to Bernard L. Majewski:

"On this 13th day of July, 1967, the National Petroleum Council is meeting in formal session in the City of Washington, D. C., for the fifty-eighth time since it was established by the Secretary of the Interior twenty-one years ago at the request of the President of the United States.

"The members of this Council, before beginning their deliberations today, wish to pause both in sorrow and fond recollection, for one of their most beloved and dedicated colleagues, who is not among them. He departed this life on January 27, 1967, and every member of the Council felt a profound sense of personal loss at his passing.

"His given name was Bernard L. Majewski, but in every part of this wonderful land he loved so dearly, and throughout the American Petroleum Industry in which he worked for 58 years, he was simply and affectionately known as 'Barney.'

"Born in Chicago in 1895, Barney Majewski began his oil career in 1909. First he worked and fought his way from office boy and tank wagon driver to Vice President of the Deep Rock Oil Corporation. Always an independent in thought and action, he left Deep Rock in 1951 to head a marketing group in Chicago, characteristically named by Barney, 'The Great American Oil Company.' Both through his Great American Oil Company and as an individual, he subsequently engaged in almost every phase of the oil business, including even the marketing of natural gasoline and LPG where as President of Signal Perfect Fuels he was associated with old friends in Amerada and the Signal Oil and Gas Company.

"The service rendered by Barney to this nation and to our industry spans four decades. No memorial resolution could commence to do him justice. His service to the nation runs back to the old Planning War Council, the Petroleum Industry Marketing Committee for the Middle West throughout the war, and after the war, to the Petroleum Advisory Board to the Joint Chiefs of Staff.

"Since 1933, it has been the exception rather than the rule not to find Barney taking an active part on the board of most of the important trade associations of the oil industry, and as a member of almost all of the committees of these associations and their governmental counterparts, dealing with the really controversial issues affecting oil at the time.

"A charter member of the National Petroleum Council, Barney Majewski was its most articulate member, and the most consistent and staunch believer and defender of its purpose and value. His advice and counsel were always sought. Between the birth of the Council and Barney's passing, 56 sessions of the Council were held, and he was in attendance at all but seven of them. He served as a distinguished member of the Agenda Committee for 16 years, and on 28 special study committees of the Council, eight of which he chaired.

"NOW, THEREFORE, BE IT RESOLVED, on this 13th day of July, 1967, that we, the members of the National Petroleum Council, record our warm affection for our old friend we can never forget; and that we also record our admiration and appreciation for the selfless service he rendered to this Council, to all his colleagues in the petroleum industry, to his Government, and to the people of this Nation.

"Of Barney it can be truly said he was unique. After he was fashioned the mold was broken -- master of both the King's English and the every day language of oil men, ardent advocate, dramatic, articulate, independent, bold, imaginative, a champion of free enterprsie and the economic system under which Barney Majewski, a great example of the American melting pot, grew, lived and thrived.

"We shall miss his never failing sense of humor, his wit, his candor; his plain, honest common sense. Admired and respected by those associated with the larger organizations in our industry, commanding the devotion of all the 'little guys' in the business, Barney Majewski, above all, was beloved by all who knew him from one end of this land to the other. He was an outstanding American with a deep faith in God, who loved his family, his country, and people everywhere.

"BE IT FURTHER RESOLVED, that this expression of our love for Barney Majewski and our sorrow at his passing, be forwarded to his wife, Thelma, and to his children."

(Signed) "J. Howard Marshall
Chairman"

Thank you.

CHAIRMAN DONNELL: I would suggest we adopt this by a rising vote.

(Audience rises.)

CHAIRMAN DONNELL: Mr. Mr. Warren is chairman of the Nominating Committee. Are you ready to give your report at this time?

MR. WARREN: Yes, sir.

REPORT OF NOMINATING COMMITTEE

BY MR. J. ED. WARREN

MR. WARREN: Mr. Chairman, the Nominating Committee -- and as Chairman of it, on my previous occasion when I was Chairman some 10 or 12 years ago, when we retired to the back room and were told to stay out a decent length of time and then bring back this slate -- this time we had a meeting and exchanged letters.

The nominations that we propose are as follows:

The Appointment Committee Chairman, Frank N. Ikard.

Members: E. D. Brockett; F. Allen Calvert, Jr.; George F. Getty, II,; Fred L. Hartley; A. L. Nickerson; J. Howard Rambin, Jr.,; C. Pratt Rather; M. H. Robineau; Roland V. Rodman; and Arch H. Rowan.

The Agenda Committee: Chairman, Jack L. Hamon.

Members: Jacob Blaustein; Howard Boyd; Bruce K. Brown; Michael L. Haider; John M. Kelly; H. M. McClure, Jr.; J. Howard Marshall; John E. Swearingen; Andrew W. Tarkington; and J. Ed Warren.

I might say, that last name I had to work awfully hard to keep on this list. The officers that are proposed are: Jack H. Abernathy, Vice Chairman; J. C. Donnell, II, Chairman.

Mr. Chairman, I move that these nominations be placed in order.

CHAIRMAN DONNELL: Members of the Council, you have heard the report of the Nominating Committee. I might say that I did not seek another term, but it has been established somewhat as a precedent that the Chairman should serve two years, so the report next year will name a new Chairman.

As many as favor the report, please say "Aye."

(Whereupon, there was a chorus of "Ayes.")

CHAIRMAN DONNELL: Opposed, "No."

(No response.)

CHAIRMAN DONNELL: Thank you, Mr. Warren.

I would like now to introduce the Honorable Stewart Udall, Secretary of the Interior, and Co-Chairman of the National Petroleum Council.

STATEMENT OF HONORABLE STEWART L. UDALL,

SECRETARY OF THE INTERIOR

MR. UDALL: Thank you very much, Mr. Chairman. Considering your performance, I am glad we have a two-term tradition for the Council.

I am not going to speak very long this morning -- there are just a few things I wanted to say. I have important testimony before a Congressional Committee, beginning at 9:45 this morning and I am going to hit and run, if I may.

We do have some of the first team of the Administration on the program today, Gardner Ackley, the Chairman of the President's Council of Economic Advisers is here, and Dr. Hornig will be along later, too, so you are going to hear from some of the President's chief advisers this morning.

(2)

I wanted to introduce, because many of you know him, and others of you, I hope, will have a chance to get acquainted with him, my new Under Secretary that the President nominated two days ago, and I brought him with me this morning. He is a former member of the Federal Power Commission, has more recently been serving as the Administrator of the Fire Administration in Portland, Oregon, which has one of the largest hydro-electric power installations in the country.

His name is David Black, and Dave, would you stand up, please, so they can all see you.

(Applause.)

MR. UDALL: I am having a reception in my office at 5:00 o'clock today, a farewell reception for Charles Luce, my present Under Secretary, who, as most of you know, is becoming the Chairman of the Board of Consolidated Edison in New York City in a few days. He has two more days of duty left with me, and I would like to invite all of you -- and I hope if your wives are with you, you would bring them and come to this reception at 5:00 o'clock this afternoon.

It might give some of us an opportunity to visit in the corridor and for you to get acquainted, and those of you in the New York City area, based there, would be particularly interested, I think, in meeting Mr. Luce if you haven't had an opportunity earlier to do so. So, I issue that as an added social event of the day, if I may.

This has been a very turbulent six weeks, the period that we just passed through. Indeed, the turbulence, as we all know, isn't all over with. I doubt that any of us in this room would have thought that the events that have occurred, could occur, without there being more disruption, dislocation, perhaps serious impairment of the status quo in terms of the big picture with regard to petroleum in the Middle East and in the Western World than has occurred.

Certainly, one thing that has been uppermost in my mind as the days, as the crisis unrolls and as the events move forward, was how fortunate we are in this country in terms of our national security to have a strong and vigorous petroleum industry. We have,and particularly in light of our oil import program, which is based on the national interest and the national security. We have talked a great deal about national security and at times some people, certainly none of you in this room, have snickered a little bit and you said, "Well, is national security really involved?"

Well, when one gets to a crisis of the kind that we have had, I think -- and when one realizes so clearly and fully how the military capacity of a nation in a mechanized world depends literally on the availability of supplies of petroleum products that make the machines go, I think -- this certainly drove the point home both to the nation, and to all of those that were involved.

I think that it is something to look upon with a great deal of satisfaction that we haven't had a Suez roller-coaster in terms of prices, in terms of the overall picture that constituted the aftermath of the hostilities in the Middle East. I think it is quite remarkable, at least to me, in a way, that in terms of the international companies that the -- and I cross my fingers when I say it -- that the status quo and that the existing situation has been distrupted as little as it has.

I think there is a good reason for this because I think the industry people, and I say this intending to praise, have been very cool-headed. I haven't seen a single statement by any leader of industry, any of you in this room, any others, that in any way might have, during the crisis, or subsequently, done anything to disturb what was a very delicate situation.

I think the nation was fortunate that the most cool-headed person in the country was the President of the United States during this entire period, and I think that the peace of the world and the security of this country have benefited as a result.

But, certainly, those of us that have been working with the Emergency Committee, with your people, realize the importance of the preparedness steps that have been taken. Certainly, one of the great lessons of this crisis, in terms of petroleum, was the importance of preparedness, the importance of knowing what you can, and can't, do, the importance of knowing that you can deal with any contingency that arises, and I think we were in a position to do this.

It was, also, I think, a source of satisfaction to us in knowing that we had plans with the other nations allied with us in the Western World, and that these plans can be, and are being implemented to meet the emergency conditions that exist. So that I simply want to say -- and that is the one point that I wanted to make -- that from where we sit, that I think there is cause for a great deal of satisfaction, not of smugness, but of satisfaction, that a very vital industry has behaved with great restraint and great responsibility, a satisfaction that the country profited and benefited from good planning and from preparedness steps that were taken.

I think the fact that we have not had a price roller-coaster situation, it hasn't developed, indicated again the lessons of 1956 and the fact that industry realizes that their future is tied to stability.

So, I want to say this to all of you at the beginning of this meeting today. I think that the meeting should go forward with a feeling that we have passed through a very difficult period and that this industry and its leaders have come through, as far as I am concerned, and I know I speak for the Administration on this, with flying colors.

I will let this be my official comments to you here today and I will hope to see many of you at the reception in my office at 5:00 o'clock this evening.

Thank you very much.

(Applause.)

CHAIRMAN DONNELL: Thank you very much, Mr. Secretary

Mr. Allen Calvert has asked for an opportunity to present a very short statement at this time.

STATEMENT OF ALLEN CALVERT,

MEMBER OF THE

NATIONAL PETROLEUM COUNCIL

MR. CALVERT: Mr. Chairman, Mr. Secretary, distinguished guests at the head table, fellow members and guests:

Mr. Secretary Udall, as always, you have complied with a request on my part. You have talked re-independence and we will certainly accept the bouquet of roses you have tossed us. We have a short statement to make and we are going to return some roses to you and, I hope, without thorns.

On behalf of the IPPA, I am commissioned by the membership to acclaim the Government, and particularly you, Secretary Udall, for having expeditiously taken the initiative in recognizing the emergency as to crude oil and its products caused by the Middle East conflict.

You, Secretary Udall, and your staff and related Government agencies, the Office of Emergency Planning, Gardner Ackley over there, and the Justice Department, and other Government agencies have collaborated in facing up to the petroleum needs of the Free World. Due to your access to this worldwide intelligence, you know the requirements much better than we in the industry.

Meeting these needs, including our Atlantic Alliance and national security requirements, will of course receive wholehearted cooperation from all segments of our industry from now on, just as you have since June 5th.

We are grateful and proud and secure in the knowledge that the domestic industry has the surplus capacity to be drawn upon. We credit this capacity to the free enterprise system, the wisdom of the State regulatory agencies and judicious Federal laws and policies.

We recall one of your early statements, Secretary Udall, and you used it today -- how heartening it was to recognize the self-sufficiency of this country.

But, in responding to these needs, Mr. Secretary, and to this emergency, we hope that when we draw upon this excess producibility, which we are doing now, all concerned will recognize that the economic incentive to replace these reserves is not present in the current marketplace. No better authority exists for this statement than the conclusion reached in the National Petroleum Study recently completed, which was circulated some few months ago, and of course, it was conducted under your joint chairmanship.

I would urge and hope that the Government and the larger units of our industry who are most knowledgeable in this area, will recognize the necessity to improve the economic incentive.

Again, I thank you, Secretary Udall; and thank you, Mr. Chairman, for allowing me to talk at this time.

(Applause.)

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STATEMENT OF GARDNER ACKLEY, CHAIRMAN,

PRESIDENT'S COUNCIL OF ECONOMIC ADVISERS

CHAIRMAN DONNELL: Our next speaker is Mr. Gardner Ackley. Professor Ackley was born in Indiana, received most of his education in Michigan with advanced degrees from the University of Michigan and Western Michigan University. Government service is not new to Professor Ackley. He started his government career in 1940 with the National Resources Planning Board and continuing through the war years he was with the Office of Price Administration and the Office of Strategic Services. During the Korean conflict he served with the Office of Price Stabilization.

When not serving the government he rose in the academic profession almost exclusively at the University of Michigan, becoming a professor in 1952 and department chairman in 1954. His many professionalactivities, to indicate but a few, included membership on the Board of Directors -- Board of Editors of the American Economic Review, Director of Social Sciences Research Council and consultant at various times to the Ford Foundation, Brookings Institution, National Bureau of Economic Research and other groups.

He has many professional and honorary affiliations and has published extensively. It comes as no news to you that he is presently on leave from his academic post and once again is serving his government. Beginning in 1962 as a member of the

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Council of Economic Advisers and since 1964 he has occupied his present position as Chairman of that Council.

It is indeed a pleasure to welcome Professor Ackley to our Council and to present him to you at this time.

(Applause.)

MR. ACKLEY: Thank you, Mr. Chairman.

Gentlemen, when Stew Udall invited me to speak to this audience some time ago I must confess that I was tempted to plead a competing engagement. I have heard it rumored that the petroleum industry does not unanimously regard the Council of Economic Advisers as that government agency most sympathetic to its needs and problems. If this is true, it is a feeling that the industry shares with the National Farmers Union, the AFL-CIO, and some other respectable groups.

Yet, while I can scarcely expect from you as enthusiastic a welcome as Moshe Dayan might receive in Cairo, I have decided that in this case valor was the better part of discretion. So, here I am.

Some years ago a Secretary of Defense provoked a certain amount of criticism by saying that what was good for General Motors was good for the country. That was a somewhat oversimplified statement, yet it was probably not too far from the mark, though my formulation would reverse the emphasis. I think that particularly in the last few years both industry and government have increasingly come to agree that what is good for the nation is, in the vast majority of the cases, not only good for General Motors, but for the oil industry and for every other especially in the long run. And, conversely, what is good for the long-range interests of the oil industry is also, with few exceptions, good for the nation. Of course, the exceptions are important. Members of this or any other industry may in the normal pursuit of appropriate corporate objectives at times act in a manner inconsistent with the interests of the community at large and government, as the representatives of that community, may on occasion, and indeed even chronically, pursue policies with which you and others cannot be entirely happy.

I hasten to add, however, that the mere existence of these inevitable divergences between corporate and community objectives does not automatically imply the need for government intervention nor for any dramatic confrontation between industry and government. On the contrary, the great bulk of these divergences are merely a natural characteristic of our system of free enterprise in democratic society. They are ordinarily and properly simply accepted or ignored. There are times, however, when their impact is so broad and serious that government cannot stay aloof.

Industry and government involvement is obviously a two-way street. Government may at times have to enlist the assistance of an industry in matters of broad national or international concern or impose requirements or restrictions

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in the overriding public interest. At least as frequently, however, industry encounters problems it can't solve with its own resources and calls on government for help. In either case decisions must be reached regarding the course of action or inaction which will best reconcile the interests of the company or industry with those of the community.

On the broadest scale, however, it is the essential parallelism of interest which is almost always clear and dominant and not the inevitable divergencies.

In saying this I am not intending to endorse the reported view of one of my professional economic colleagues in a book just published which appears to hold that for all practical purposes big business and big government constitute a cozy and unbreakable alliance dictated by the facts of modern technology and management. But, I am saying that the goals of business and of government, although not the same, are not mutually inconsistent most of the time.

One of the areas in which the identity of interest is most obvious lies in the mutual objectives which I think we all share of steady economic growth at a sustainable pace and with reasonable stability of prices. We have learned, I think, that this doesn't occur by itself. It requires conscious and deliberate action of a sort that only the Federal Government can take, and the principal tools are those of fiscal and monetary policy. Both our ability and our willingness to use these tools has developed greatly in recent years. I will surely not try to defend the proposition that our record in their use has been perfect. Clearly, the unexpected, and by their nature, unpredictable requirements of war have upset the sensible and rational calculations of fiscal and monetary policy on more than one occasion in recent years.

Last year too much of the burden of stabilizing the economy was assumed by monetary policy, with consequences that were not entirely happy for the Administration, for the Federal Reserve System, the business community, and particularly the financial and homebuilding segments, nor for the American people. Yet, given the difficult problems of a wartime economy, I would argue that we have done mighty well. A severe financial crunch developed last summer, but a financial crisis was avoided. The housing industry was thrown into a severe depression last summer and Fall by a starvation of mortgage funds, but the recovery has been prompt and substantial. Housing starts in May were up 50 percent from their low point of last October. An unsustainable and dangerous boom in plant equipment spending was cooled off without throwing business investment into a sharp reversal. Although putting on the brakes caused a substantial overaccumulation of inventories last fall and winter, that has been and is being currently balanced off by a substantial underaccumulation, and without throwing the economy into a recession. Prices rose far too fast from mid-1965 to mid-1966,

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but that rise was slowed down without resort to damaging and inefficient and inequitable direct controls over wages and prices. We have been through a tough period. An excessive boom from mid-1965 to mid-1966 was followed by a sharp retardation when the brakes finally took hold, but we are coming through the adjustment well and can look forward with confidence to the new problems that lie ahead.

What is the economic outlook? To us in the Council of Economic Advisers it appears essentially the same today as it did last January. After a sluggish first half-year, a gradually accelerating revival that by year-end could threaten the return of inflationary pressures. The sluggishness of the first half has been due to a combination of three factors, two of which we foresaw, and then the third of which we didn't.

In the first place, inventory accumulation fell from an annual rate of sixteen and a half billion dollars in the fourth quarter of last year to five and a half billion dollars in the first quarter of this year. This $11 billion drop in the rate of inventory accumulation offset most of the sizable increase that occurred in the final demands of businesses and consumers and governments, and it gave us a mere four and a half billion dollar increase in gross national product for the first quarter, all of it due to price increases.

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From the first to the second quarters of this year the rate of inventory accumulation fell some more, but this time by less, from five and a half billion in the first quarter to probably one billion or less in the quarter just ended. Final demands continue to rise well and we are guessing that the net gain in GNP for the second quarter was probably around $10 billion, at least half of it real.

Looking ahead, it appears to us that inventory accumulation will decline little, if any further, and thereby cease to be a drag on production. At some point it will begin to rise back towards its normal six to eight billion dollar a year level and become a positive force.

The second factor in the sluggishness which we certainly foresaw was that the recovery of housing would be necessarily rather slow. Housing starts have turned around nicely, but construction expenditures lag considerably behind housing starts and they have remained low, although beginning now slowly to rise.

Looking ahead, the recovery of housing construction expenditures should accelerate, contributing an additional five to eight billion dollars to the level of GNP by some time early next year. There is, of course, one caveat, that recovery could be threatened if there were a return to tight money and higher interest rates which might again cause a starvation of mortgage credit, and this is something we are determined to avoid if at all possible.

The third factor in the sluggish performance of the economy in the past six months was an unexpected and largely unexplainable cautiousness in consumer buying. Consumers have been saving an abnormally high percentage of their income and this has caused the rise of consumer spending to be slower than we would have guessed. However, the news from Detroit and three successive months of rising total retail sales suggests that the consumer may be returning now to a more normal pattern of spending. At the very least, we should see no further rise in the rate of consumer saving, so the consumer will cease to be a drag on economic activity. His spending from now on will rise along with his income.

Spending by state and local governments has been rising faster than ever, by two or more billion dollars a quarter, and that advance will surely continue.

Federal spending will not be rising as rapidly as in the immediate past unless there are significant new troop deployments to Vietnam. But, it will continue to rise in any case.

Without some new restraint on the growth of demand GNP could be rising by well over $15 billion a quarter by late this year or early next, and that would be too fast an advance. It would renew pressures on labor supply, wages, and on prices. Unless new restraint comes from a tax increase, it will surely come from a returned tight money, and so our joint objective of a soundly based and healthy growth of production and incomes wds 9

imposes new challenges on economic policy. None of us like to pay higher taxes, but there are surely worse alternatives. I am confident that the business community in general and members of this industry in particular can support the President's request to the Congress for the enactment of a tax surcharge.

The same revival of demand that will require new fiscal restraint also means that the problem of rising prices will still be with us. In fact, it has not really disappeared. In recent months the advance of our overall price indexes has slowed down materially, but in large part this merely reflects the fact that farm prices and some raw materials have been retreating from their peaks of last year. Behind the scenes the up creep of industrial costs has proceeded inexorably, not as fast as a year ago, but still definitely moving up. Wages have continued to advance about as fast as last year, which is too fast, and productivity gains have been temporarily depressed. Profit margins have been impaired in many industries as cost increases have been absorbed. In the months ahead, farm prices will no longer be generally declining. On the average they will probably be moving slightly upward. Most raw material prices have probably hit bottom. With more rapidly rising production, productivity gains should revolve, but with stronger demand, cost increases will again tend to be passed along to buyers.

The clear fact is that a high employment, high production economy has a built-in inflationary bias even if excessive demand pressures are avoided. And the lingering effects of last year's price increases will strengthen that bias in the months ahead.

So, I conclude that the need to seek the utmost restraint in wage and price advances will remain a central concern of government economic policy in the year ahead.

I think I need not stress to this audience the interest you have and we all have in the restoration of price stability. In the long run, virtually no industry or no company or no individual can benefit from an unrestrained price-wage spiral. No one really gains from such a spiral. Business raises prices to cover rising costs, but the higher cost of living raises wages and again raises business costs.

We have already seen the impact of last year's increase in consumer prices on the pattern of labor negotiations and wage settlements. When wages and profit margins are rising more rapidly than productivity, simple arithmetic shows that while money incomes can easily rise faster than total output, real incomes can't, and the burden of adjustment is thrown on the price level. It is for this reason that so much of the effort of this Administration in the past several years has been devoted to urging price restraint on industry and wage restraint on labor. Obviously, when a company is asked to hold prices at a level lower than the market would stand, this involves some sacrifice in terms of profit, at least in the wd jkh 11

short run. In a longer perspective this sacrifice may be more than repaid even for the company in the industry by the greater stability of markets and by moderation of cost pressures. From the point of view of the community as a whole, the benefit of price stability is almost incalculable. One simple reason, of course, is that inflation hurts most those least able to protect themselves. Inflation redistributes both income and wealth in ways that bear no relation to economic contribution or ability to bear the loss, and so it engenders unrest and social divisions that weaken the social fabric and impair national unity.

The second reason is that rising prices distort incentives and the pattern of production creating imbalances that make it more difficult or even impossible to maintain steady growth of production and incomes.

A third reason is what rising prices will do to our balance of payments already overburdened by the heavy dollar costs of our defense effort in Southeast Asia and our commitments to freedom and stability elsewhere in the world.

Consequently, in the absence of mandatory controls which I regard as unthinkable, each company which has any discretion in its pricing policy must make its own careful appraisal of its short-term and long-term objectives, of its responsibility to the community at large, and of the benefits that all derive from best serving the interests of that community which lie in the return to stable prices.

I suppose it is clear that I am not only talking about prices in general. I am talking about petroleum prices. Since 1964 the average service station price of gasoline, exclusive of tax, has risen more than 12 percent, or about three times as fast as the average for all nonfood commodities at retail. If some calculations I made last night are correct, over this period the increase of about two and a half cents per gallon, before taxes, has added some $2 billion to the costs paid by the American consumer and the same amount to industry revenues. About one sixth of the entire increase in the nonfood commodity component of the consumer price index over these three years was accounted for by gasoline alone. By contributing to the rise in the overall consumer price index, these increases have triggered automatic restoration clauses in a number of industries, gasoline prices alone adding tens of millions of dollars to the annual payroll costs of American business.

In the light of these facts I hope that you will at least condone the Government's expressions of concern over the last round of gasoline increases that occurred earlier this year. In any event, I offer no apologies for the Administration's request, that the companies that initiated the increases reconsider them and that others refrain from following them. So far as the major companies were concerned, at least, we saw neither need nor justification for another round of increases at a time when price restraint is so essential to the avoidance of an inflationary spiral. Obviously, the restoration of price stability can't be accomplished by the exercise of restraint by a single industry or only by business and not by labor, and our efforts to seek restraint have not been confined to oil prices or to prices alone and not to wages. But, by the same token, no industry and no labor union can be exempted from the obligation to exercise responsibly its power over prices and wages. The larger the industry, the broader its ramifications, the greater its share of responsibility.

Finally, let me turn to some implications of the current situation. Thanks to the strength of your industry, we have no immediate concern regarding the adequacy of oil supplies for our own use, and we have welcomed also your readiness to cooperate with the Government and among yourselves in alleviating the situation in Western Europe once the delays in obtaining an agreement among the Europeans themselves were overcome. We remain concerned, however, about minimizing the impact of the necessary adjustments on our own economy. All recall, some with apprehension and some perhaps with nostalgia, what happened to petroleum prices at the time of the last Suez crisis. I have the impression also that the sharp price increases in 1956 and 1957 did not reflect any real shortage of supplies at home. Certainly, the fairly rapid subsequent erosion of those increases strengthens this inference.

Confronted with a similar situation today we can earnestly hope that the same theme will not be replayed, and I am confident that it will not. We certainly recognize, as we must, that the process of adjusting to the needs of the present emergency can have an effect on costs. For example, in activating marginal productive resources and the loss of some lower-priced imports, readjustments of transportation or production schedules. We would urge, however, that these limited cost increases be absorbed by your companies to the maximum extent and that no new round of price increases be initiated. Certainly, a repetition of the wild price gyrations which occurred between late 1956 and early '57 would represent a serious setback to our efforts to restore general price stability. To the extent that they would inflame inflationary trends in the general economy, your industry too would lose in the long run.

We are, therefore, most gratified by the fact that officials of some of your companies have already expressed to Government representatives their intention to hold the line on prices, and they are agreed that the Middle East situation should not be used as the excuse or the occasion for disturbing the present general level of petroleum prices.

I hope you will forgive me for talking so explicitly about a problem that is obviously a sensitive one, but I wanted you to know of our concern and of the reasons for our concern. In the past several years I have talked personally with officials of major American business firms about price increases which they have initiated, which one of their competitors have initiated, which were rumored to be pending or in some cases which they voluntarily informed us they were considering. Perhaps on a hundred occasions in the past several years I have had this "show us", a pleasure.

We have not always agreed on what the companies should or should not do in the circumstances which it faced. Sometimes we have agreed, either because they have been persuaded or because we have been. Sometimes we have simply agreed to disagree, only very occasionally in public. The most remarkable fact to me is this: Not more than once or twice have I been told in these discussions that prices are a private affair and that the Government has no business asking questions or expressing opinions about them. On the contrary, almost invariably I have been told that the company recognized that there was a larger public interest in the price decision, that they agreed that that interest should play a role in the company's decisions, and that the Government had a right, even a responsibility, to point out and to explain the public's interest.

It is only because I am confident that most of you share this responsible and public-spirited attitude that I have spoken so directly to you today. Thank you.

(Applause.)

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CHAIRMAN DONNELL: Thank you, Mr. Ackley.

We appreciate your being with us today, and while we may not like everything you said, we appreciate your frankness in so speaking.

Our next speaker is the Honorable J. Cordell Moore, Assistant Secretary of the Interior.

(Applause.)

STATEMENT OF HONORABLE J. CORDELL MOORE,
ASSISTANT SECRETARY OF THE INTERIOR FOR
MINERAL RESOURCES

MR. MOORE: Mr. Chairman, distinguished guest, members of the National Petroleum Council.

I thought that you might like to have a report on the events that have occurred during the last two months. The published statements, published remarks, I will brief somewhat in my speech here today. It may be of some value to you in giving you the chronology of events that have occurred.

Whatever else one might think about them, nobody can claim he has been bored by the events of the past six weeks, and askde from the concern and loss of sleep they have caused me, they at least rescued me from the traditional speaker's dilemma of what to talk about. With almost six weeks of history to work with at this point, we are able to get a reasonable perspective of the events to speculate about their meaning for the oil community, as well as the Free World at large.

Skipping over the details of how the present situation developed, I will simply summarize by saying that our problem is to find alternate ways of getting 3-1/2 million barrels of oil a day to Western Europe that formerly moved through the Suez Canal. This is approximately 40 percent of its total supply.

In addition to this large requirement of the future, we must deal also with the cumulating effect of the enormous dislocation that has already occurred. No less than 200 million barrels of oil bound for Free World markets has been interrupted or delayed. Shipping schedules have been disrupted, tanker rates have spiraled.

Tens of millions of dollars in oil-related revenues have been lost to the oil-producing countries; cost to consumers served by those sources will inevitably increase. The massive movement of oil along the customary trade routes has been checked, and only time and much effort will restore its smooth and orderly flow.

In view of the major interruption to fule oil supplies it is now evident to all concerned, we feel the need, we feel that we have no choice but to determine that a petroleum emergency existed outside the United States. This was done on June 10th, with the concurrence of the Department of State, the Department of Defense, and the Office of Emergency Planning.

Two days previous to this determination we had called the Foreign Petroleum Supply Committee into session to obtain the consensus of its membership as to the scope and nature of the problems faced in maintaining petroleum supply to the Free World. The Committee was unanimous in expressing its belief that a petroleum emergency existed which threatened the broad security interests of the United States.

On Tuesday, June 13th, the Subcommittee of the Foreign Petroleum Supply Committee met with Government officials to develop a Plan of Action which would spell out operating policies and procedures for meeting oil shortages which may result from the production cut-off and the closure of the pipelines and the Suez Canal.

The draft plan was completed on June 14th and approved by the full Committee on June 20th. In the meantime, while the drafting Subcommittee met in Washington, a special meeting of the OECD Oil Committee was held in Paris to also consider the impact of the crisis.

Since the brunt of any dislocation in the Middle East oil supply would inevitably fall upon the nations of Free Europe, the OECD Committee has historically dealt with the oil problems of Free Europe, including those stemming from the 1956 Suez interruption.

Our desire was to establish a continuing dialogue with this body so that both we and they would be able to act quickly pp4 Phone: (Area 202) 628-4266

and responsibly to meet the problems that might arise from the current interruption. The Oil Committee communicated the sense of this meeting to the Executive Committee, and thence to the full OECD Council. The Council acted on June 27th, and over the next three days all actions required to place the Foreign Petroleum Supply Committee's plan of action into effect were also complted.

The Emergency Petroleum Supply Committee, formed at the invitation of the Office of Emergency Planning, held its first meeting Friday, July 7th. At that time, the Committee was requested as its first task to assemble the information needed to provide a continuing appraisal of the size and detail of the supply and transportations problems affecting, mainly, the countries of Western Europe, but including other countries as well. It is currently in the process of carrying out that directive.

I would like to depart from my published remarks to make a few personal observations about the actions and attitudes taken by the OECD countries in the present situation. I ask that you treat this particular information in confidence.

During the period beginning with the outbreak of hostilities and continuing up until the OECD Council action two weeks ago, there was conspicuous awkwardness in our relationship with our European friends. From just looking at the newspapers, you could easily get the impression that we were

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over-reacting while the Europeans were playing it cool. With less than three percent of our oil supply interrupted or threatened, we had declared an oil emergency and complained to the SPSC to help Western Europe, which faced the interruption of two-thirds of its oil supply.

But, up until June 27th, it was difficult to get a number of the European countries to concede publicly that there was even a problem. As a result, we appeared to be in the ridiculous role of a Boy Scout trying to help a little old lady across the street who didn't want to go.

But, when you talked informally with the principals involved, you got a very different story, several stories in fact. At the outset there was an atmosphere of confidence among the nations that stemmed from the excellent, initial condition of oil and petroleum stocks, and a feeling by many that the present crisis would soon pass.

This, in turn, gave way to a steadily deepening concern as time went on, and in the meantime the crisis remained with us.

There was a nation that, by not publicly exhibiting this concern, by playing down the implications of a cut-off, that the Arab nations would be misled as to the effectiveness of their leverage on European oil supplies, and therefore, less inclined to exploit it.

Next, there was a confusing note introduced by the

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heavy pressure of consuming country governments on oil company marketing affiliates to make good on their contracts and the promises by the latter, more optimistic than justified by the circumstances, that deliveries would be made as scheduled. Then there was a fear by a few of the countries that by becoming identified with the United States in any formal plan to deal with the emergency, they would end up on the same black list that we were on.

If this happened, they would be faced, not only with a transportation problem but with a supply problem as well.

Finally, there was a predictable reluctance of the French to go along with any venture that called for extensive United States participation.

Unfortunately, in view of France's dominant position in the Common Market Block and the requirement for unanimity within the OECD, the position of the Council to recognize the needs for actions came two weeks later than it might have otherwise, and because Europe's willingness to act in its own interests, at least in part, was a key to our own ability to act, and thus our own decision was similarly delayed.

Meanwhile -- that is the end of the restricted information.

Meanwhile, the sort of response that always follows a change from normal marketing conditions has already been taking place. In Texas, the allowable was raised from 33.8

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percent to 35.9 percent for the latter half of June, and then to 42.9 percent for July -- the highest since March of 1957.

Louisiana, Oklahoma, and New Mexico allowables have also been raised. Shipments of crude oil and products from Gulf Coast ports during June increased by 5-1/2 million barrels over the normal figure estimated for that month. Of this total, 2.2 million barrels went to Europe, 2.8 million to the U. S. East Coast, and a half a million went to Canada.

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Also, during June, Venesuelan loadings increased by 6-1/2 million barrels -- about 6.6 percent over normal. By the first week in July, our shipments were running 650,000 barrels a day over normal -- 40 percent of it being exports to Europe and Canada.

So much for the narrative portion of my ramarks. In the wake of any great event, there are always the inevitable post mortems and reassessments aimed at discovering in what ways the future will differ from the past. Before these post mortems proliferate -- which they inevitably will -- before the Monday-morning quarterbacks start rehashing events, starting the week of June 15,1967, and with the benefit of hind sight, say what should have been done, I would like to make a few predictions.

With your indulgence then, I should like to devote the remainder of my remarks to some speculations about the meaning of the latest appeal in the Middle East for the future of oil, in particular, and energy resources in general.

I realize that, when viewed in retrospect, after the crisis is over, my speculations may seem inappropriate. But, if we are to plan for the future, we must think about it, even at the risk of being in error in some degree.

First, let me say that I do not believe that the past months' events suggest an ultimate breakdown in the commercial relationships that obtained between the host countries and their oil company concessionaires up until June. I do not see any headlong retreat by U. S. companies out of the Arab world and back to more favorable political climates.

Nor do I see any substantial lessening of European and Japanese dependence upon Arab oil at any time in the foreseeable future, unless significant discoveries are made elsewhere. The facts are simply against any major change in the existing order of things. Europe and Japan will continue to rely heavily upon Arab oil simply because there is presently no other source even remotely capable of supplying the amounts that are needed.

I further believe that the Arab nations will continue to make their oil available to the industrial nations of the Free World because only those markets can give it any value. And the U. S. oil companies are likely to go on providing the indispensible link between producer and consumer, as they have been doing for 55 percent of Free Foreign production, because no other aggregation of capital, equipment, technical and managerial resources is capable of taking over, on short notice, the job they have been doing.

Having said this much in defense of the established order, I would like to go on to voice my conviction that things will never be quite the same in the future as they have been in the past. Those of you who have had occasion to observe the terrain above the San Andreas Rift in California have been able to see quite clearly that things do not settle back exactly into place after a severe shock.

So it is, and has been, with the priodic spasms that have ripped more or more countries of the Middle East from time to time. The seizure and shutdown of the Anglo-Iranian properties by the Mossadegh Government in 1951 gave a powerful stimulus to the development of oil in other countries, notably, Kuwait, which cost Iran its leadership in oil production.

The blockage of the Suez Canal in 1956 was instrumental in accelerating the development of the super-tankers and the exploration in Libya and Algeria, and other places. I am sure, too, that it provided a convincing argument for establishing controls over oil imports to the United States, first on a voluntary basis in 1957, and later, under the Mandatory Oil Import Control Program in 1959.

The wisdom of those controls, and of the policy they serve, has been made quite evident over the past few weeks.

By holding the imports of all oils except residual fuel oils into Districts I to IV to 12.2 percent of domestic production, we have preserved for domestic producers the preponderant part of the growth in demand in those Districts since the control program was instituted.

By the preferential treatment of Western Hemisphere sources, we have insured that most of the oil we do import originates in the Western Hemisphere. Out of a total of U. S. consumption of 12 million barrels a day in 1966, only 285,000 barrels a day -- less than 2-1/2 percent -- came from the nations who now deny us oil, and this, of course, we can easily make up in the United States.

It will be very surprising, I think, if the events of the past few weeks do not evoke some new responses by other nations, as well as by us, aimed at mitigating the potential effects of future crises which may arise in the Middle East. Quite obviously, the search for additional, alternate sources will get a strong stimulus, as the consumer nations move to diversify their sources.

And, perhaps not quite so obviously, something else is likely to happen. The search for security of supply does not end with geography; it extends into politics and economics as well. A possible result could be a new burst of interest in national oil companies, embracing all phases from production to distribution, by consumer nations who, in the interest of their own security, would like to control their oil supply from the wellhead to the city gate. Much will depend on how successfully your industry solves its supply problems over the next several months.

Going into the oil business is a costly proposition, as you all very well know, but a nation which feels its supply is threatened will willingly pay the price of channels it feels to be more secure than those it is using.

Another straw in the wind -- in fact, it was in the making long before the past months' headlines hit the papers -- is the steadily declining profitability of overseas oil investment. The return to U. S. companies on capital invested in foreign oil operations has now dropped below that for domestic operations for the first time in 20 years, 11.7 percent as against 12.3 percent for 1966, as reported by the Chase Manhattan Bank.

This erosion of profitability abroad, plus the inherent instability of the areas so recently demonstrated, may tend to give other prospective regions the edge in future investment decisions that would otherwise have been made in favor of North Africa or the Middle East. In practical terms, it may mean a renewed interest on the part of some of the larger companies in prospects closer to home -- in Latin-America, in Canada, in the United States, both on and off shore.

It may be just a coincidence, but I find it very interesting that the recent off-shore Louisiana lease sale netted high bids totaling a record \$512 million. This was surprising to me, as I am sure it was to many of the people in this room. This compares with an offering of nearly four times that amount of acreage in 1962, for which bids were accepted in the amount of \$446 million.

The total money brought to the sale was \$1.6 billion, compared with \$900 million in 1962, and I call that a pretty high-stake poker game. Our usual experience in previous sales has been that only about the acreage offered is taken. But, the most heartwarming surprise of all was the fact that the highest successful bid -- \$32.5 million, for Tract 1777 in the Ship Shoal Area -- was made by a group of independents.

Whether this revival of interest in domestic exploration may be translated into increased farmouts and dry-haul contributions to independents next year, I am not prepared to say. It might even have the opposite effect if the major companies are sufficiently interested in the prospects to do their own testing.

It is much too early to tell, but I should think that the effort to find oil in other parts of the world will be greatly stimulated by what has happened this month in the Middle East.

Nor will the effort to increase the availability of alternate sources of supply be confined to conventional petroleum. Even while the Middle East simmered last May, Secretary Udall dedicated the new coal hydrogenation pilot plant at Cresap, West Virginia. The object of the plant's operation is to show that gasoline can be made out of coal at prices competitive with gasoline made from petroleum.

(5) It is a small installation aimed at obtaining 75 barrels of liquid from 25 tons of coal a day. If it works, then the oil emergency will provide one more argument to proceed with the development of this process on a commercial scale as rapidly as possible. Such a development will, of course, be of particular interest to Free Europe and Japan, whose present vulnerability stems from the fact that over the past 15 years they have substituted foreign oil for indigenous coal as the principal source of their energy.

Lastly, there is shale oil, in which interest has slowly been gathering momentum over the past several years. On May 7th, the Department of the Interior published its proposed regulations governing oil shale leasing and land exchanges. These regulations, when they are finally promulgaged, will open the door to any company with the resources and the interest to develop the potential of our enormous shale resources.

And every interruption, every threat, every shadow falling across the security of foreign oil supply, gives a certain impetus to the efforts being directed to bring oil from shale into commercial markets.

At this point, the fog appears to be clearing and the familiar outlines of the old relationships are reappearing. It has been a harrowing time, but barring a renewal of hostilities, we should be able to look forward to gradually improving conditions. But, the shock has been felt, and the change is subtle,but significant -- the changes are in the making, and because of them the future chronology of energy development, both here and abroad, will tell a different story from what might have been had the Gulf of Aqaba been kept in the realm of geography instead of politics.

I would like to make one other statement which I think may be of interest to the audience in general. We are not overlooking the possible impact of this emergency when it has ceased to become a threat. When the emergency ceases, we recognize that after the Suez crisis there was a rather severe dislocation. I have my staff at the present time working on this problem very diligently to see how we can minimize the impact of this when this threat of emergency has been removed and when it is rather difficult to get the tap turned off on the production which has been increased in Louisiana, Texas, and the other States, and at the same time, we have oil import allocations which cover millions of barrels of oil which are yet to be imported.

I want you to know that we are thinking about these problems even while we are still worrying about the emergency.

I don't know how successful we will be, but at least we are going to try to anticipate all these dislocations to minimize the impact on the industry.

I want to thank you, this body, again, for its tremendous assistance to me in the Office of Mineral Resources area of the Department of Interior, to the Department of Interior as a whole, and to the Government as a whole.

Thank you very much, gentlemen.

(Applause.)

CHAIRMAN DONNELL: Thank you very much, Mr. Moore.

Many of us are quite aware of how busy you have been and we appreciate your efforts, not only on behalf of the Government, but on behalf of our industry.

During the roll call, Stark Fox asked for an opportunity to make a short statement. Would you like to do that now?

MR. FOX: Yes, sir.

STATEMENT OF MR. STARK FOX,

MEMBER OF THE

NATIONAL PETROLEUM COUNCIL

MR. FOX: Gentlemen, during the roll call, I asked to make a short statement which I said would be about crude prices. I think I further said that I thought that crude prices were completely unrealistic. I may not have used that word.

I think that I have some support among some of the gentlemen in this room, some of whom have said that prices of crude does not, or is not, realistic today, that it should be raised. I think I also have some support from the study of the National Petroleum Council Committee on the factors governing exploration and development of crude oil in the industry over the past 20 years, a committee on which I have the honor to be -- of which I had the honor to be a member, which concluded, at least in part, that one of the reasons that reserves had not been developed as much as they should be was because of decreasing profitability outlook in the oil industry.

This applies particularly, of course, to production. Decreasing profitability outlook means to me that the price isn't sufficient to attract investment.

I think -- this is a personal opinion and I can't prove it -- I think that in view of the statements made by many of the industry's leaders, principal purchasers of crude oil, to the effect that crude is not priced high enough, I think that the reason that the price -- they are not, therefore, increased, is because of the justifiable concern, I think, that these industry leaders have about Government policy, about retaliation by the Government if the proper -- I say proper -- steps are taken and crude prices are increased.

I would further say that part of the remarks that Mr. Ackley made earlier today confirm me in that belief. I don't know what the answer is. I do think it is a completely unrealistic attitude on the part of the Government, one branch of which is worried about future supplies of oil in the country, and the other branch doing what I consider to be a job that will keep the Department of the Interior worried about the future ufure supply of oil in this country.

Thank you, Mr. Chairman. (Applause.)

CHAIRMAN DONNELL: Now, our next speaker is Dr. Donald F. Hornig. He was born in Milwaukee in 1920. After receiving his doctorate at Harvard in 1943, Dr. Hornig spent a year as a research associate at the Woods Hole Oceanographic Institution in Massachusetts.

In 1944, to 1946, he was a group leader at the Los Alamos Laboratory in New Mexico. In later years, he joined the faculty at Brown University as Assistant Professor.

In 1957, he joined the faculty of Princeton University and was appointed Chairman of the Department of Chemistry in 1958. In 1959, he was appointed to the Space Science Board of the National Academy of Sciences, on which he served until 1964.

In 1960, President Eisenhower appointed Dr. Hornig to his Science Advisory Committee and he was reappointed by President Kennedy in 1961. In late 1960, he served on the Kennedy Task Force on Space, to help formulate policy in this field for the new Administration.

In 1962 and '63, Dr. Hornig served as a member of the U. S. Delegation headed by Dr. Hugh Dryden, which negotiated the agreement with the USSR for cooperation in certain space activities.

He has published approximately 70 papers in many scientific journals, and has received many honorary degrees. On January 27, 1964, the Senate confirmed the President's nomination of Dr. Hornig as Director of the Office of Science and Technology in the Executive Office of the President. Dr. Hornig also serves as Chairman of the President's Science Advisory Committee.

We are very happy to have you with us this morning, Dr. Hornig.

(Applause.)

STATEMENT OF DR. DONALD F. HORNIG,
DIRECTOR, OFFICE OF SCIENCE AND
TECHNOLOGY.

MR. HORNIG: Thank you, Mr. Chairman.

It gives me a great pleasure to have this opportunity to meet with this group of leaders of one of our largest and most vital technological and most progressive industries. I have been acquainted with your work, I think, principally through this fat volume, "The Impact of New Technology", and I am looking forward to a closer acquaintance.

It looks at the scene that it is clear that our energy industries tend to pace our economy and our world of change. The growth of the GNP and energy consumption seem to bear a remarkable constant relationship to each other throughout the world in both the developed -- and the devoloping -- nations.

And, the change in the requirements for fuels and the nature of fuels, and the mix of fuels, is a healthy fact of life, and the industry's traditional ability to cope with change is a clear indication of its vitality.

Now, we all know the petroleum industry's response to the growth of, first, the automobile, and then the aviation industries, and the technological changes and power plants produced by those industries which have demanded ever more refinement.

We know the changes which have brought to petroleum's door much of coal's former markets and transportation and household and space heating, and to an increasing extent, even in electric power generation. And we all know the progress being made in turn by natural gas and atomic energy, and to some other markets, and the further changes which may come if fuel sales or electric power for automobiles are developed successfully.

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What is economically sensible for us to do is determined, in fact, by a great many things, and I am not going to include the Mid East crisis in my remarks this morning. They seem to have been well handled, but anyway, what is sensible to do is determined by many things, ranging from what is technologically feasible, to what matches public taste.

Now, the Federal Government is always taking the pulse in various ways in this vast complext of variable, so much so, in fact, that Representative Chet Holifield of the Joint Committee on Atomic Energy maintains a collection of studies relating to energy, and while he is making a public point of piling each one on its predecessor he has a stack about so high (indicating).

But, the Government does have a great need to keep in intimate contact with what is going on in the energy industry, and this is so because of the central importance of energy to all aspects of national progress, and because of the Government's very great impact on its development in a multitude of ways; fact policies, trade policies, regulation, selective support of research and development, to name a few.

One of these studies of energy which I have been exclusively associated with, was the Interdepartmental Efforts which was initiated in 1963 by President Kennedy: "To aid in determining the most effective allocation of our research and development resources."

As the President said at that time, the amount and allocation of Federal research and development in the energy field will affect the efficiency of various components of our energy system and, consequently, the rate and pattern of our national growth.

This study was carried on with a large number of people, many of them drawn from your industry. The study concluded that we appear to have adequate total resources to satisfy the expected energy requirements of this country in the world context through the end of this century and at costs near present levels.

But, although this is a very comforting conclusion, the report also makes clear that it does not solve our energy problems. It was made clear that it is not only the total fuel resources that matter, but the availability of a competitive mix of options of differing fuels which would substitute for each other as user technology changed.

Most of you are probably familiar with the report which is entitled, "Energy R&D in National Progress." Let me summarize a few other points which shook out of it.

First, you will probably begin to run short of natural gas ahead of other fuels, probably by the end of the century, unless, of course, we locate new resources or discover methods of transporting gas economically in large volumes from outside the United States.

So, therefore, we must look forward to the eventual possibility of a large-scale conversion from gas to other fuels.

Second, although we have learned to live with perpetual forecasts that we are about to consume all of our domestic petroleum reserves, those dire predictions are going to be realized some day, and it is not too far away, but it doesn't greatly matter for long-range planning purposes whether it is 50 or 75 years away. But, substitutes for our present liquid and gaseous fuels will almost certainly be available, such as products derived from shale oil, that have been mentioned this morning, from tar sand and from the liquidation of coal through coal hydrogenation.

The study concluded that it was appropriate for the Federal Government to support or encourage some of the development of technology and resources needed to meet this objective and to have these alternative sources of supply available.

The study also concluded that the Federal Government is justified in continuing a reasonable level of efforts to develop advanced nuclear power plants with improved fuel utilization. Approximately 50 times more energy is potentially available from these powers with nuclear fuels than we are now getting.

But, the effort to approach this potential is going to involve high risks, tremendous developmental expenditures, and long lead times. It does not seem likely that reactors which are the reactors which we have utilized, which would have a very high conversion efficiency on the fuels that will be available much before 1990.

The report also noted that environmental pollution associated with production and use of energy resources is one of the major problems of our times, requiring both Government and private research and development, as well as governmental regulations, and since the completion of that study, as you know, air pollution has become one -- a matter of major public concern -- and the sulphur content of our crude oils has assumed new significance.

All future energy policy will clearly have to cope not only with domestic resources and foreign policy problems, but increasingly with the long-range implications of the progressive pollution of the atmosphere. And, not all of these implications are understood yet. We have been concerned with sulphur dioxide pollution; of course, with lead pollution, but in the longer run it has been noted that by about the year 2,000 the carbon dioxide content of the atmosphere will have increased by 25 percent and the full implications of this for the world's weather, for example, are not yet completely understood.

But, what we are led to by these and other considerations, is the clear need for long-term national management, management of our energy reserves on the one hand and of our encironment on the other. Part of the job is to see that our research development efforts are adjusted to the world situation and to the domestic resources situation in such a way that we continue to have viable options;and part of the management effort, of course, is the maintenance of a framework in which a competitive free market economy can operate. It is an effort which will require long-range planning, performed in the losest cooperation between industry and Government.

Now, the production of pollutants and an increasing need for pollution management, are an inevitable concomitant of a techlogical society with a high standard of living. Pollution problems plainly will continue to increase as our technology and standards of living continue to grow. You may say, then, "So, what's new?"

Men have always been engaged in altering his physical environment. It may be that the whole question of the management of our environment is now being subjected to rhetorical over emphasis, but if so, the torrent of words has not provoked us to enough action yet.

Of course, even the problems of cities have precedence. There has been smoke and fog in London from the burning of soft coal since the 13th Century, and for at least 500 years the British Parliament has shown an intermittent concern and enacted intermittent legislation about the pollution of the River Thames. But, consider the present condition of the air.

In 1959, Philadelphia released 830 tons a day of sulphur dioxide, 300 tons of nitrogen oxide, 1350 tons of hydro carbons, and 470 tons of particulars; that means, smoke, into the atmosphere.

The City has such a degree of atmospheric conversion,

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and that means a layer which contains all of this material, 300 days a year, and in severe conditions, 100 days a year, and within a 15-mile radius of Philadelphia the fallout amounts to 7,000 tons of solids per month.

In Southern New Jersey, 36 species of plants have been shown to have been injured by pollutants from the Philadelphia area.

The dilemma which confronts us is simply this: modern civilization cannot produce the goods and services to support and improve our standards of living without creating wastes and products, the accumulation of which threatens man's physical, social, and economic wellbeing.

Now, since no one proposes to halt progress, I can come to only one conclusion. The problem of waste control and waste management must be accepted as an integral part of business operations and economic calculations. The basic control is expensive but inevitable.

(7) It must, therefore, become part of our basic economic outlook. One way or another, the cost of disposing of the products of our enormous production capability must be thought of as part of the cost of production, whether they are incurred in meeting regulatory standards, in coping directly with pollutants, or through more elaborate economic inventions.

Starts have been made, but they are only starts. I think it is now plain to everyone that in the next few years

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we will see further progress in law relating to the control of air pollution, both at the municipal and at the Federal level.

Well, pollution is with us, but the vital importance of the energy industry to the countries, the great scope and variety of problems with which we are confronted and the number of Federal agencies, there are many involved in energy-related activities, have presented the Government with problems in establishing broad policy in which the industry and the nation might flourish. And, therefore, in a Message to Congress last January 30th, entitled, "Protecting Our National Heritage," the President assigned responsibility to me and me and my office, "To sponsor a sole study of energy resources and to engage the necessary staff to coordinate energy policy on a Government-wide basis."

Now, this is a broad and complex assignment. The specific energy issue confronting the Federal agencies involve public land policy, trade policy, regulation activities, taxation, pollution, nonenergy uses of petroleum, natural gas and coal, transportation, research and development, social welfare.

Moreover, policies affecting any one of the energy resources inevitably produce important consequences for the others, and yet frequently they -- the important activities are in different Federal agents. For example, consideration of how to meet the continued growth and demand for liquids and gaseous fuels touches several broad policy fields, including

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national security, foreign trade, research and development, and regulatory practice.

Now, we are just beginning this. As planned, the proposed study which the President called for will be carried out under contract. It is deliberately designed to further our understanding of the national energy resources supply and demand outlook of the sensitive interrelationship among energy resources, and of possible consequences of alternative Government policies to guide the decisions of the Executive Branch with respect to particular energy resource problems, and to provide information to the Congress.

Now, as the proposal,as the new study is at the moment in the stage that resources for the future is incorporated -- is preparing a comprehensive perspective of the study, and we expect to have that in hand by late summer or late fall, and at that point we will have a better idea of the total scope of the study, and be in a position to get on with it.

My office is still in the process of assembling the staff for the coordination activity that the President mentioned. But, as the proposed new study progresses and as we get more deeply into the analysis and coordination of Federal policies, we shall, of course, look to your industry and to the many other segments of industry related to energy for advice and assistance.

You have been highly cooperative and helpful in the past, and I will look forward in the future to working with you.

Thank you.

(Applause.)

CHAIRMAN DONNELL: Thank you very much, Dr. Hornig.

While this Council is appointed by the Secretary of the Interior and responsive to his requests for studies and advice, I am sure that the abilities of this Council could be made available to you in the energies studies which you refer to.

Our next speaker is Admiral Fowler Martin, Commander of the Defense Fuel Supply Center.

Admiral Martin.

(Applause.)

STATEMENT OF ADMIRAL FOWLER W. MARTIN, SC, USN,
COMMANDER, DEFENSE FUEL SUPPLY CENTER

ADMIRAL MARTIN: Mr. Chairman and gentlemen, I think many of you are aware of the fact that on the 1st of July, this year a new piece of legislation became effective, known as the Freedom of Information Statute. I think most of us thought this was a device for providing more free flow of information between the Government and the citizens.

After preparing my talk here over the last few days, I concluded it is probably serving a different purpose; namely, probably more useful to make the speeches of public officials a little bit shorter, but the last time I addressed this group

I was quite new as the head of the Defense Fuel Supply Center, and since that time, however -- particularly in the last six weeks -- I have gotten a pretty good education in this business.

As most of you gentlemen are aware, the major source of petroleum to support military operations in Southweat Asia and certain other Pacific locations, is the Persian Gulf. You can well imagine, therefore, the impact of the news on us when the Arab-Israel conflict re-erupted and threatened to deny our sources of supplies from this source.

Fortunately, this situation had been anticipated. We had started some studies back last February and we worked very closely with the Department of Interior, with industry groups, to come up with a plan to see how we would overcome the situation.

Our basic problem was time. First of all, our alternate sources, which largely are the U. S. Gulf and the Caribbean involved an additional sailing time of approximately 15 days for tankers to Pacific destinations.

This not only involved additional time, but obviously additional tankers. You probably saw a press release in which it was anticipated about 35 additional tankers would be required. We did eventually get 28 tankers.

Secondly, we knew it required time to establish new sources, to permit industry to gear up to supply the products from all of its sources. We anticipated about the best we

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could do there would be 15 days; maybe 30 days was more realistic. And, of course, the Military overseas transportation service require time to charter and position tankers, although this could go on concurrently without developing new sources.

Our concern about the time was inventory drawdown that could take place until we established the new sources. Fortunately, we had certain reserves that were there for that purpose and would enable us to live until we got the new sources going.

On the fourth of June, prior to the actual disruption of Military shipments from the Mid East, we sent a team out from my office to visit various oil companies, and we did this in a couple of days, to see what was going up in the way of additional resources.

At the same time, we were screening our inventories to see if we could make certain adjustments and redistribute products. I must say that we had extremely fine cooperation from industry. Before we went out, we weren't quite sure how to proceed on this, we had so many wild ideas. Somebody said, suggested, consonant with the times, that I equip my buyers with credit cards from various oil companies and if the company was uncooperative they were to burn the cards.

We decided that wasn't the best solution. Obviously, we didn't have to resort to such dire actions. We did get these contracts lined up. They are contingency contracts.

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They are contracts we hoped we wouldn't have to use, but we knew we needed some kind of an insurance policy.

Now, one of the decisions that we had to make was whether we should, as soon as we had these contracts in effect, start utilizing them. They covered about 6-1/2 million barrels of product a month; or whether we should, if time permitted, try to resort to normal contracting efforts to get the product. We thought we had an obligation to the companies.

On the other hand, most of them, obviously, for good reason, were somewhat reluctant to have us exercise these contracts. They all said they needed some kind of priority assistance. We were able to get that working through the Interior. To date we have not had to use the contingency contracts. They do run for a six-month period, ending the end of December.

When I was trying to make this decision about whether to use them or go to alternate sources, I felt kind of like the fellow who was engaged to a girl and then said to her, "Well, I like you, honey, but I think I will look around and see if I can do better. If I can, I will. If not, I wlll come back to you."

I don't think it is quite parallel because I think the companies also felt that we ought to use normal sources if we could, and obviously, we would go to the companies with the

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which we have done.

Also, I think I should mention for your information, to the extent, month-by-month, that we don't use the quantities that are fluent in these contingency contracts, the contractor's obligation is fortunately reduced. During the month of June,

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we were able to get turned around, get enough products moving to do the job.

The same thing has happened in July.

Looking ahead, I am reasonably optimistic that this time we will be able to continue our operations in Southeast Asia without any impairment because of the lack of petroleum, and much of the credit for our being able to do that should be given to the petroleum industry. You have been most cooperative, and I want to thank you.

(Applause.)

CHAIRMAN DONNELL: I am sure, Admiral, that cooperation through this industry and the Government in its requirements is something that has been going on for a long time and will continue.

We have elected, this morning, a new Chairman of the Agenda Committee, Mr. Hamon.

Will you present your report now?

AGENDA COMMITTEE REPORT

BY: MR. JAKE L. HAMON

MR. HAMON: Mr. Chairman, pursuant to the call of the meeting of the Agenda Committee of the National Petroleum Council, made by J. C. Donnell, II, Chairman, in his letter to the members dated May 17, 1967, and with the meeting and this agenda having the approval of the Honorable J. Cordell Moore, Assistant Secretary of the Interior, and Co-Chairman of the Committee, the Agenda Committee met on July 17th at 3:00 p.m., in Washington, D. C.

Under date of May 29, 1967, the Honorable J. Cordell Moore addressed a letter to Mr. J. C. Donnell, II, requesting the Council to undertake the following studies:

1. Future petroleum provinces of the United States. In requesting this study, Assistant Secretary Moore stated that the American Association of Petroleum Geologists in 1951 published a review entitled, "Future Petroleum Provinces of North America," which was utilized by the Council in its 1952 report on productive capacity.

Since that time, new petroleum provinces have been discovered and significant additional data has been acquired. He considers it essential, therefore, that the habitant of our potential petroleum be reassessed to provide a very important basis for future Government policy decisions in the energy field.

2. Material requirements for oil ~~-- this is the second request -- material requirements for oil~~ and gas exploration, drilling, and production. This requested study is prompted by the responsibility of assigned to the Secretary of the Interior by the President with respect to preparedness planning for the petroleum industry.

In 1963, the Council published a report of the annual requirements for oil, country, tubular goods, and other steel products necessary in the exploration, drilling and production of oil and gas reserves in the United States.

The Council is requested to update this report and in so doing develop general assumptions on engineering ground rules similar to those contained in the Council's 1966 refining material study for use in estimating these requirements.

[Copies of these letters are attached to my report.] omit

As provided in the articles of organization of the Council, the letters were considered at the above-mentioned meeting of the Agenda Committee, at which meeting it was unanimously agreed to recommend to the Council the appointment of the appropriate committees to make the studies that have been requested by Assistant Secretary Moore.

In complying with Assistant Secretary Moore's request for this information and data, the committees undertaking the study should not suggest plans or programs.

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

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

A VOICE: Second.

CHAIRMAN DONNELL: Are there any questions or comments about the report of the Agenda Committee?

(No response.)

If not, as many as favor its adoption will please say, "Aye."

(Whereupon, there was a chorus of "Ayes.")

CHAIRMAN DONNELL: Opposed, "No."

(No response.)

CHAIRMAN DONNELL: Thank you, Mr. Hamon.

We now come to the presentation of one of the most important studies that this Council has undertaken. It has been going on, I think, for two years or more and a great many people have been involved in the preparation. It is one of those that I am sure this Council can be very proud to have produced in response to a request by the Secretary.

Mr. Richard. McCurdy is the Chairman of the Committee on the Effects of New Technology in the Petroleum Industry.

STATEMENT OF RICHARD C. MC CURDY,
CHAIRMAN, COMMITTEE ON EFFECTS OF
NEW TECHNOLOGY ON THE PETROLEUM INDUSTRY

MR. MC CURDY: Chairman Donnell, members and guests of the Council:

MR. MC CURDY: In 1965, the Council undertook to study and evaluate the impact, during the period 1946-1965, of new knowledge factors in oil fields, yields of petroleum capacity, recovery factors in oil fields, yields of petroleum products in refineries and upon their related product quality changes. We were to include in this study such conclusions and expert industry opinions as to future technology trends as would seem appropriate and helpful.

The overall task was divided into two major parts -- Production Technilogy and Refining Technology. As Vice Chairman of the Production Technology part of the study, E. H. McCollough, President of Amerada Petroleum Corporation, had a task group for the Subcommittee for New Production Technology with Lloyd E. Elkins, Production Research Director, Pan American Petroleum Corporation, serving as Chairman and Richard F. Meyer of the Office of Oil and Gas serving as Government Co-Chairman.

You have before you the result of this effort, which is contained in Volume One.

The Vice Chairman of the Refining Technology part of the study was Charles E. Spahr, President, The Standard Oil Company of Ohio, with a Subcommittee for New Refining Technology with Donald G. Stevens, Vice President, The Standard Oil Company (Ohio), as Chairman, and W. D. Luening, Office of Oil and Gas, as Government Co-Chairman.

The other volume you have, Volume Two, is a result of that group's efforts.

I should like at this point, briefly, to summarize for you some of the conclusions reached in the study.

Volume ~~I~~ One deals with the effects of the developing technology of the period upon crude oil exploration and production, together with an assessment of the performance by the industry that will be required in these areas to meet the estimates of future crude oil demands made in 1966 by the Bureau of Mines, U. S. Department of the Interior.

Conclusions:

During the 20-year period -- 1946 to 1965 -- the development and use of both new and improved exploration and production technology, as well as the more effective application of previously known technology, rapidly accelerated. Through extensive research new tools, techniques and procedures were discovered, and widespread testing was undertaken to determine their practical effectiveness. The full impact of many of these developments has not yet been attained. In the report, over 200 specific areas of technological progress, in all stages from experimental to mature, are reviewed.

A. ~~First~~ Exploration:

New technology has had a growing favorable impact on discovery efficiency by providing tools and methods for improved selectivity in choosing drilling prospects. While ~~the~~

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declining since 1956, the total volume of new oil found per each new field wildcat drilled has been sustained at a constant level since 1955.

This occurred following a severe decline in oil found per new field wildcat in the period 1946 to 1955, when the number of wildcats was increasing rapidly. The trend in total new oil in place discovered per year has been declining since 1948, although a substantial flattening in the rate of decline during the past five years must be credited to new technology.

The evolution of technological improvements for offshore exploration and development in progressively deeper waters on the Continental Shelf of the United States has opened vast new geographical areas for exploration. Improved geophysical techniques, advances in geological concepts, and application of new methods for deeper drilling, have all permitted exploration down to depths not possible a few years ago, which opened new sedimentary basis for exploration. Formation fracturing and commercialization of thermal recovery methods have broadened the spectrum of exploration opportunities in formations which could ~~ot~~ not be efficiently or profitably produced prior to the development of these methods.

Through the 1970's, in order to meet the demands for U. S. crude oil estimated by the U. S. Bureau of Mines, it would be necessary for the industry to discover an average of about six billion barrels of total oil in place per year, if the present reserves to production ratio -- 18.3 to 1 -- is maintained. This is about 25 percent a year more than the experience of the last seven years. Without question, technology not yet developed and improved technology not yet fully applied will play a major role in meeting such requirements.

B. PRODUCING PREVIOUSLY DISCOVERED FIELDS:

An estimate of the impact of technology since World War II on both exploration effectiveness and recovery efficiency requires as a base an estimate of the history of the cumulative total oil in place discovered in the United States. Such an estimate would represent the aggregate production from all oil-bearing reservoirs since their discovery plus estimates of the total remaining oil within those reservoirs. The analysis made in this study indicates that by 1965 about 350 billion barrels of oil in place had been discovered in the United States.

The amount of such oil which can be recovered economically is dependent on physical properties of the hydrocarbons, reservoir and rock characteristics, and prevailing technology at any point in time. Of the estimated 350 billion barrels of oil in place discovered in the United States, it is estimated in this study that about 36 percent, or about 128 billion barrels of oil has been or will be recovered under 1965 economic and technological conditions.

It is further estimated in this study that in the past 20-year period the cumulative oil recovery effectiveness has increased from about 26 percent in 1945, or at the rate of one-half of one percent per year. There is good reason to expect continued improvement in recovery efficiency approaching this same rate through the 1970's.

It is also estimated that an ultimate economic recovery of at least 50 to 60 percent of the oil in place discovered inthe United States should eventually be achieved. As this ultimate level of recovery efficiency is approached, the annual rate of improvement in recovery capability should taper off to something less than the one-half of one percent per year trend.

Continued improvements in production technology thus may add as much as 1-1/2 to 2 billion barrels of recoverable oil each year through the 1970's to the cumulative recoverable oil already discovered.

While methods for increasing recovery of oil in place by injection of water and gas into oil pools have been known for many years; such procedures became particularly important during the 20-year period under review. This was due to development and application of new or improved fluid injection technology, together with advanced reservoir engineering knowledge.

Such injection procedures have been principally responsible for improvement in oil recovery efficiency. The injection of water in conjunction with heat, chemical additives and polymers, and water which is foamed, emulsified, or solubilized in oil are new developments now on the threshold of application and merit optimism for continued improvement in recovery efficiency.

C. PRODUCTIVE CAPACITY:

Productive capacity for oil is the maximum daily rate that can be produced from existing wells with the condition that such rates do not cause loss of recoverable reserves. Of course, productive capacity is contingent first upon the finding or discovery of new oil and then on recovery capability.

It is significant that the ratio of productive capacity to actual production of domestic crude oil has steadily increased since the early 1950's. Improved well completion, fluid injection, formation fracturing, and operating technology have sustained or increased productive capacity in many older fields and augmented productive capacity from more recent discoveries.

D. COST SAVINGS:

The application of new or improved technology in the past 20 years has resulted in substantial cost savings, Evolving new technology,combined with direct cost reduction efforts, since 1946-1950 have resulted in an estimated annual cost savings equivalent to between 85 cents and a dollar per barrel of oil produced in 1965.

Wider well spacing, faster drilling rates, fluid injection, extensive use of automation and conservation of materials represent the main contributing factors to this accomplishment. Application of new technology in the future, as well as continued management effectiveness, give promise of additional cost savings. However, the magnitude of savings which can be ultimately realized through known technology has practical maximum limitations.

E. TRANSPORTATION:

Crude oil and liquid products are transported by pipeline, tanker, barge, rail and truck. New technology in the past two decades has been extensively applied to all these forms of transportation. The result is significant, particularly in the case of pipelines, through which the bulk of crude oil movements to refineries are made.

In this area, the developments include highly automated large diameter thin-walled high-strength steel pipeline systems. Unit pipeline tariff costs have declined about 15 percent during the past 15 years. In this same period wage and basic materials costs almost doubled. In the case of water transportation, some cost reductions have been made in coastwise shipping through the use of larger tankers. As even larger vessels are put into service, unit cost reductions of as much as 50 percent may be attained.

F. OUTLOOK FOR THE FUTURE:

The Bureau of Mines has estimated that the 1965 annual crude oil production rate of 2.7 billion barrels would increase to a level of 3.8 billion barrels in 1980. This estimate of growth was predicated on the assumption that crude oil would retain approximately the same share of the energy market it held in 1965, and that the 1965 ratio of imported oil to domestic production would be generally constant.

The industry's capability, with continued application of technological improvements, to find new oil and to recover an increasingly higher percentage of discovered oil are such as to indicate that the Bureau of Mines' estimates through the 1970's are within the range of attainment. Meeting these estimated future requirements will, however, require a continuing intensified application of current and developing technology, as well as accelerated research, development, and utilization of new technology.

VOLUME TWO -- IMPACT OF NEW TECHNOLOGY ON U. S. PETROLEUM REFINING 1946-1965:

Technological advances have had a major impact on the petroleum refining industry since World War II. Rapid growth in the demand for motor gasoline and distillates has been met both through increased refinery capacity and by installation of new processes to convert heavy residual materials into needed light products.

Even with a major shift in refinery yields to maximize the gasoline and distillates, the industry has more than doubled its refining capacity during the 1945-1965 period. New processes employing complex catalysts have been introduced which are far more flexible and efficient than the old thermal operations commonly used during World War II.

In addition to quantity, the quality of all petroleum products has been steadily improved, not only by more intense refining methods, but also through wide use of chemical additives developed during the past two decades.

By the end of the War, no excess refining capacity existed. Starting in 1945, the industry expanded at such a rapid rate that in a few years the refining capacity exceeded the demand for products. This has resulted in an intensely competitive industry, with the individual refiners working diligently, as new equipment is installed, to find ways of increasing efficiency and reducing operating costs. Great emphasis is placed on heat economy, consolidation of operations, automatic control, improved maintenance practices and other steps to produce products at the lowest possible costs.

In the same postwar period, the so-called petrochemical industry underwent a vigorous development and expansion. The industry was pioneered pre-~~are~~ war by both chemical and oil companies, received a boost by wartime demand, and grew rapidly thereafter. While related in part to refinery technology, the development of this new industry represents a large technical achievement in itself, and is not considered as refining technology to be examined in this report.

The report does examine the many changes in refining processes, particularly the transformation of the refining industry's chief product, motor gasoline and the effect on processes by the shift in demand pattern of the refiner's output to meet the growing heavy demand for jet fuel distillates. Along with new processing techniques, refiners were also introducing ways to improve efficiency and reduce product cost; yet over the 1945-1965 period, total operating costs, after adjusting for inflation, were actually reduced by about 12 percent, in spite of the refiner doing considerably more in order to provide the higher quality products. It analyzes the various significant refinery efficiency developments.

In covering the marked increase in product demand between 1946-1965, the report described the many improvements in product quality and handling. As we recognize, the refining industry, like other manufacturing industries, has frequent contacts with the public and with the Government and is also subject to many forms of Federal regulations.

The report, therefore, goes into those aspects of refining technology which relate to national defense, safety, and the many problems that arise in the fields of air and water cleanliness. As we were charged, the report also contains, where appropriate, considerations as to the future outlook.

This brief summary today, of course, cannot do justice to these reports, but they will speak for themselves.

I should like to express my deep thanks and admiration for the work of the many contributors to this study. Many people who have reviewed it have commended, not only on the evident quality of some part or another, but also have observed that no summary like it can be found elsewhere. I believe this to be true, and indeed, this is what we set out to accomplish.

One part of our Committee's job remains, to be undertaken next. This is to produce a non-technical, readable story of these accomplishments for the benefit of the layman. The wisdom of this step will, I feel sure, be evident to the Council members upon perusal of these two volumes. They do indeed contain a great store of material covering accomplishments whose value is well known to us, but by and large only to us.

The present work, being a reference work, will not solve this particular problem, for in truth it takes a fair degree of technical competence to get through much of it. It is my view, however, that the results of these two decades of progress can be made into a broadly understandable and interesting story, and we very much look forward to this phase of our task.

Mr. Chairman, on behalf of the Committee, I submit these two volumes for the consideration of the Members of the Council. I move that these two reports be approved, but subject to such revisions that appear advisable following our receipt of any comments or suggestions which the National Petroleum Council members may give us in the next 30 days.

CHAIRMAN DONNELL: Thank you, Mr. McCurdy.

You have heard the Chairman ask the Council if you approve the study, and also ask the members to make any suggestions that they may have before it is finally completed, within the next 30 days.

Are there questions or comments at this time?

(No response.)

CHAIRMAN DONNELL: If not, as many as favor the recommendations will please say "Aye."

(Whereupon, there was a chorus of "Ayes.")

CHAIRMAN DONNELL: Opposed, "No."

(No response.)

CHAIRMAN DONNELL: We will look forward to reading this, and also the popular version.

MR. MC CURDY: Thank you.

(Applause.)

CHAIRMAN DONNELL: As Mr. McCurdy said, obviously, many people have participated in the preparation of this report. It is a monumental job. We will now have a progress report by John Swearingen, Chairman of the Committee on Oil and Gas Transportation Facilities.

REPORT OF THE COMMITTEE ON OIL AND GAS

TRANSPORTATION FACILITIES

BY: JOHN E. SWEARINGEN

MR. SWEARINGEN: Mr. Chairman and gentlemen: my report this morning will again be brief.

The meeting of the National Petroleum Council on January 31st -- I reported to you that the status of the Committee work, on the request of the Department of the Interior for a thorough study of current petroleum and gas transportation capacity.

At that time I announced the appointment, and acceptance by the Chairman and members, of five subcommittees to conduct studies of petroleum and gas transportation capacities for the following transportation modes: tank trucks, inland waterways, tank car, gas pipeline, and petroleum pipeline.

The representatives of the Department of Interior were also named to serve as Co-Chairmen of each of these subcommittees. In the 5-1/2 months since our last meeting, these subcommittees have gone about the collection of necessary data. In some instances, the preparation, completion, and return of industry questionnaires have been required to obtain up-to-date information.

In other instances, punch cards were available for compiling the available statistics on transportation capacities and machine runs were made to consolidate this information.

All five subcommittee chairman have informed me that all data for their published reports have been collected. The reports have been prepared and have been sent to all subcommittee members for approval. We expect to have the report of my full committee by the middle of August and it will be ready for your inspection by about the middle of September.

CHAIRMAN DONNELL: Thank you, Mr. Swearingen.

The next report will be also a progress report by Mr. Learned, Chairman of the Committee on Petroleum and Gas Industries' Manpower Requirements.

REPORT OF THE COMMITTEE ON PETROLEUM AND GAS INDUSTRIES' MANPOWER REQUIREMENTS, BY: STANLEY LEARNED.

MR. LEARNED: Mr. Chairman, Secretary Moore, gentlemen: This will be a brief report to you on progress to date. You will recall that at our last Council meeting on January 31, the Countil agreed to update its 1963 report on petroleum gas industries' manpower requirements.

We were requested to expand the new study to cover phases of the manpower picture not treated previously, to include Americans engaged in foreign operations, both here and abroad, and also to give special attention to providing guidance to young people contemplating careers as engineers or scientists in the petroleum industry.

I was appointed chairman of this committee in April

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with Admiral Lattu as co-chairman.

A technical subcommittee had just been appointed under the able chairmanship of Frank W. Pearsall, head of the Department of Organizations of The Standard Oil Company of California. He will be in Washington next week and meet with the staff and counsel of the Office of Oil and Gas. The first meeting of this subcommittee will be called in the near future.

Our work, therefore, commenced and we will make a report to you in due course.

CHAIRMAN DONNELL: Thank you, Mr. Learned.

We will not hear from Admiral Lattu, the Director of the Office of Oil and Gas.

STATEMENT OF ARMIRAL ONNIE P. LATTU,

DIRECTOR, OFFICE OF OIL AND GAS,

U. S. DEPARTMENT OF THE INTERIOR

ARMIRAL LATTU: Mr. Chairman, gentlemen: I would to take, first, the opportunity of introducing some of our Government guests here. Now, this may not be right up to date, because I know some of them came in late.

First, Otis   , representing the Chairman of the Atomic Energy Commission. Will you stand, please, as I call your name?

Well, I guess he has gone.

Now, this gentleman -- I don't know whether I should have him stand or not -- Thomas Murphy, representing the

Director for Central Intelligence Agency.

Captain Ira Dye, who represents the Secretary of the Department of Transporation. I saw these people here -- but they must have left already.

Mr. Trumpner is here also.

We have Richard Matthews, representing the Secretary of Defense.

I am sorry, but I guess they have really walked out on me, a few of these people.

Lieutenant Colonel Lawrence Lee, representing the Secretary of the Air Force.

Mr. Mitchum, U. S. Air Force Joint Chief of Staff.

Commander Richard Tinley, Chief of Fuel Branch, C & O

Bureau of the Budget, Harold Linguard. I guess he is not here.

Now, the Federal Power Commission -- I know that John O'Leary is here. Nice seeing you, Jack. I understand the Commissioners are all working today and are unable to come.

We have Millard Case, Under Secretary of Labor.

I may have missed a few. I hope not.

Now, my contribution to our rather full program this morning will be a brief one, but I could not let this occasion go without commenting on a subject that has been much on my mind over the past few months. In every operating principle and every relationship there comes a time of testing, and it is

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only then that you find out if things you have put your faith in are truly valid and workable. The events of the past several weeks have once again provided just this kind of a test of working relationships among the agencies of the Federal Government and between representatives of Governments and those of the petroleum industry.

Starting back in early May with the meeting of the Petroleum Security Subcommittee and continuing through the convening of the Petroleum Supply Committee, the development of the plan of action, its approval over a period of 72 hours by four Government agencies, and the formation of the first meeting of the Emergency Petroleum Supply Committee, at every point I have experienced nothing but the highest degree of willingness and cooperation from the people I have dealt with, both in the Government and in industry.

Together, we have proved again that we can move rapidly when the chips are down, and we can work together effectively when the nation's interest is involved.

You may hear from people sometimes that Government is slow and it takes weeks to get a decision, even if you can get one. There are times when teamwork can accomplish a miracle. The Justice Department, Office of Emergency Planning, and the Federal Trade Commission approved the Petroleum Supply Committee's form of action and mailed it to 26 countries in 72 hours.

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Now, there were a lot of problems in between and it took us four or five hours after it was signed to clear it through our own mill in the Department of Interior, so I am sure the other people had the same problem. The key people in these agencies have been working very closely with us for a month or two. They knew they had to educate their key people because all of them were new since the 1956-'57 Suez crisis.

We had, earlier, obtained complete cooperation and agreement with the State Department and Defense Department.

At this time I want to extent my sincere thanks to the following people for their splendid cooperation and hard work during the last six and eight weeks. In the Office of Emergency Planning; Government Bryant, William Trumpner, and Charles Primoff.

In the Justice Department, Mr. Turner, Edwin Zimmerman, and John Lamont. John Lamont himself called me on Wednesday. I was trying to get the feel of whether he could get it approved that day or the next day and he told me I didn't have to worry too much, but he said, "I hope you don't mind that needling we gave you all day Friday because the results of the letter you sent over here is damned good."

In the Federal Trade Commission, Mr. Shea; Department of Defense,of course, Dick Matthews, Admiral Martin,

The State Department, Tony Solomon, John Oliver, Jim Akins, and many other people in the State Department.

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And, believe me, I see them there in the evening, some of them Saturday evening. They work very much like the Military. Hours meant nothing when the chips were down.

Interior, of course, Assistant Secretary Cordell Moore gave us complete backing, and he was there all the time. Bruce Wright was the Powerhouse. He had to make sure that we just did things step-by-step, properly.

And my own staff, of course, and back of them was every girl and every man in my shop.

In addition, of course, we had people on Cordell's staff throughout the Department that backed us up.

Now, there were times on Saturday or on Sunday that little jobs had to be done, or they occurred that day, and it was amazing that every time we looked around for somebody, there was a certain individual there. He was always happy. He must be happy with his work, with his home, and with the world in general. He always had a song in his heart, so at this time I want to really thank one individual who is your friend and my friend, and we all know only as "~~Riley~~ Wiley."

(Applause.)

So I want to take this opportunity to convey my sincere thanks to you and your industry for the wholehearted cooperation you have given my office and my Department. You have responded generously in your assignment of top caliber people to serve on the various committees and subcommittees at a time when their services were sorely needed by their own companies. The willingness with which you have moved to meet the complex and difficult demands that will be made upon your industry over the coming months is in keeping with your impressive performance in past emergencies.

I want you to know that the effort you have made and the commitments you have undertaken are deeply appreciated.

We can speculate about the reasons for this high-spirited cooperation which we enjoy, but I credit it to a large measure to the wide-open channel of communication of between us that has been a special function of the Council. For 21 years, the National Petroleum Council has contributed steadily to better understanding and more harmonious relationships between the Federal Government and the petroleum industry.

It is a process that has added greatly to the nation's capability to deal with emergencies which may affect production, transportation, processing, and distribution of oil and natural gas, including the present one.

In studies and reports too numerous to detail here, it has contributed a vast amount of information, of direct and indirect benefit to those whose job it is to develop and administer the policies relating to the petroleum resource.

I am happy to note today the completion of the report on the effects of new technology on the petroleum industry under the able chairmanship of Mr. Richard McCurdy and his two vice chairmen, Messrs. McCullough and Spahr who oversaw the production of refining phases of the study respectively. The successful completion of the massive research and the writing task is a credit to two hardworking subcommittees chaired by Mr. Lloyd Elkins, Production, and Mr.Don Stevens, for Refining. Thanks to their patient and dedicated efforts extending over nearly two years, we now have an informative account in great depth and detail of the contribution made by technology to the advancement of the petroleum industry.

To all you gentlemen,named and unnamed, who had a part in this vital addition to the literature of the oil business go my thanks and my appreciation for a job well done. When this is published, I hope that your staff will look at it as a possible contribution to the educational material around the country.

Beyond the urgent demands of the immediate future, we can look forward to a future of steady -- steadily growing importance? imports for the petroleum industry, meeting the great future needs that will require the best that all of us can do in Government and in industry, who are in some way identified with making our petroleum resources available to the nation; and in this context? contact of our shared efforts, the National Petroleum Council will continue to provide a vital linkage between the Government and Industry, which is so essential to the industry.

Thank you.

(Applause.)

CHAIRMAN DONNELL: The next item of business is the report of the Secretary-Treasurer, Vincent Brown.

REPORT OF THE SECRETARY-TREASURER

BY: VINCENT BROWN

MR. BROWN: Before I begin, I would like to add to the rolls those names of the members that missed the roll call. Now, I notice Messrs. Gonzalez, Hartley, Marshall, Nielson, Sorenson, John White.

Did I miss anybody?

MR. MILLER: C. W. Miller.

MR. BROWN: Mr. Miller. And Mr. Mecom.

Before I give you a brief report on Council activities and finances, I want to take this opportunity to express, in all sincerity, my thanks to you, the members of the Council, for the courtesy and consideration you always give to me and the members of the Council staff.

In the formation of committees and working groups, and in the execution of the increasingly difficult and important assignments, you give very willingly of your own personal time and effort. You have consistently made available to us many of the best talent from your organizations.

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The cost of this, in terms of time and dollars, to you and your companies has been very considerable. I want each of you to know how much we appreciate your immediate aid

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whenever we call for help. I am sure our good friends in Government share my feelings in this regard. This is what really makes industry-Government cooperation work.

As to our activities in fiscal 1967, the Council completed six special study assignments requested by the Department of the Interior, and these resulted inthe submission of 16 individual reports, manuals or books, containing a wealth of invaluable information and data.

These impressive results were accomplished by the efforts of nine staff members and 300 executive and technical experts from the oil and gas industries. I might add that, while we tried to minimize meetings and conferences, we still had a total of 18 formal meetings and 65 conferences to complete these assignments.

We operate with a small staff, as I indicated, and incidentally, as of February 1, we have an addition to the staff. I would like to introduce Maxwell McKnight, the Assistant Secretary-Treasurer of the Council from ~~the~~ Mobile Oil Company in New York City.

(Applaus.)

MR. BROWN: We operate with a small staff for two reasons. Your offices make every possible effort to achieve the highest level of efficiency in the operations of the headquarters office; or in other words, we try to get high product yield factor for every barrel of talent put through the still.

Coupled with this are the attractive and sound personnel compensation and benefits programs that were put into effect in 1963 to '65 by Qwin Follis and Jake Hamon, and updated and finalized this part year through the very fine efforts of Jim Donnell.

Now, all of this activity, of course, costs money. I will present to you the cost of our fiscal '67 operations and project our money requirements for the next year, fiscal '68. But, I am able to tell you what the members of the Council and the industry at large have really expended in the past year, and total costs for NPC activities.

For example, I can tell you that the preparation of the ten operating manuals, covering 21 divisions and staff offices of the EPGA cost the Council office $48,000 alone, but I would conjecture that the effort cost the oil and gas industries well over a half a million dollars.

This, then, is only a report on the ~~CPC~~ NPC headquarters finances. Last year you approved a total budget of $160,000. We actually received from your contributions, plus interest and sales of publications, the sum of $174,000. However, primarily because of the emergency planning effort and increases in compensation levels, we exceeded our budget and expended a total of $242,000.

In order to meet this excess, we were forced to completely exhaust our $50,000 contingent reserve fund.

Accordingly, in order to meet increased costs of basic operations of fiscal '68; to cover projected costs of committee operations; and also to permit us to start rebuilding our contingent reserve, your officers propose for your consideration a total budget of $215,000 for fiscal year 1968.

We estimate that this sum will cover all expenses and allow for an addition to the reserve fund of $14,500. This proposed budget of $215,000 exceeds the budget you approved last year by $55,000. Last year, however, the actual expenditures were slightly higher than the budget we are now proposing.

Therefore, the fiscal '68 budget represents, in fact, a level of expenditures commensurate with last year. While we certainly have a great reluctance to increase the budget, we do feel we are compelled to get it up to a realistic and workable level, pay off our bank indebtedness, and work towards replenishing the reserve funds.

Should this budget figure of $215,000 be acceptable to you, we propose to increase your dues in the most equitable manner we can.

This concludes my report to you. On behalf of Jim Donnell, Jack Abernathy, and myself, may we say against that your genuine interest and cooperation is a great source of stimulation and satisfaction to us.

Jake Hanson: ~~A VOICE:~~ Mr. Chairman, I know how carefully the budget has been scrutinized and I know the need of the budget

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and, therefore, I move the adoption of the Treasurer's budget.

CHAIRMAN DONNELL: Are there questions or discussion?

(No response.)

CHAIRMAN DONNELL: If not, as many as favor it, will you please say "Aye."

(Whereupon, there was a chorus of "Ayes.")

CHAIRMAN DONNELL: Opposed?

(No response.)

CHAIRMAN DONNELL: Thank you.

I appreciate your willingness to accept an increased budget which will mean an increased contribution, and you will be hearing from Vince in the next few days because we are worse than out of money.

We have another Memorial Resolution.

MR. BROWN~~ING:~~ I hate to do this twice in one day. This morning I was representing Howard Marshall who was delayed in getting here, so I read what he would have done, and what I am about to do would have been done by my friend, Charles Murphy, who isn't here, but I will go ahead with this one.

Resolution in Memoriam for Jake Anderson:

"Resolution in Memoriam for G. M. Anderson.

"The members of the National Petroleum Council were deeply sorrowed to learn of the death of their fellow member, G. M. Anderson, at age 53, in Shreveport, Louisians, on May 8, 1967. Mr. Anderson has been a member of the Council during the

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past three years. In this period he took an ac Council activities, including service on the Comm Future Petroleum and Gas Producing Capabilities and Participation in the Water for Peace Program. He was gre esteemed by the members, and his contributions and experience counsel were genuinely appreciated.

"Mr. Anderson was born and reared in Monroe, Louisiana He was graduated from Georgia Tech as a petroleum engineer. When he came to Shreveport in 1939, he was associated with the Feazel Interests, independent oil and gas operators, in charge of all field and production operations. In June of 1966, he opened his own offices in Shreveport to pursue further his career as an independent.

"Mr. Anderson's contributions to the industry were wide-ranging. He was a representative to the Interstate Oil Compact Commission, a Director for the North Louisiana Area on the Board of the Mid-Continent Oil and Gas Association, and also a Director of the Independent Petroleum Association of America, to name only a few of his petroleum-related activit

"His accomplishments and civic mindedness brought h honors and responsibilities as a trustee, officer and member of many institutions, clubs and organizations such as his association with the development of Centenary College of Louisiana. In this manner, his energy and fine intellect served in full measure the welfare of his community and St

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in the development of cultural, educational and charitable organizations.

"The loss of Mr. Anderson's service to this Council will be keenly felt. His knowledge and understanding of the oil and gas industry made his contribution one of great value to the industry, to his State and to the U. S. Government.

"NOW THEREFORE BE IT RESOLVED, on this thirteenth day of July, 1967, that the deep sympathy of the Members of the National Petroleum Council be extended to the widow and family of G. M. Anderson.

"BE IT FURTHER RESOLVED, that this Resolution be entered upon the permanent files of the Council and that an appropriate copy thereof be delivered to his widow, Mrs. Gertrude F. Anderson."

And I so move.

CHAIRMAN DONNELL: Shall we adopt this by rising?

(Audience rose.)

CHAIRMAN DONNELL: Now, unfortunately the Co-Chairman of the Council, ~~and~~ the Secretary, left early, and just a short while ago it was necessary for Cordell Moore to leave.

Do you have anything, Mr. Lattu?

MR. LATTU: No.

CHAIRMAN DONNELL: If there is no -- Mr. Hartley?

MR. HARTLEY: Mr. Chairman, may I make some comments, please?

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CHAIRMAN DONNELL: As long as it is not on prices.

MR. HARTLEY: It is not on prices. However, I must confess, Mr. Chairman, I don't know why you are picking on me.

I trust, Mr. Brown, that the professor who spoke to us this morning has approved this price increase of 33 percent? And I am entitled to pass this along to my customers?

In many respects I would refrain from making the comments that I am going to make to this group here, but I think it is pretty important to the industry.

I often feel that when we come back to Washington here we have a one-way dialogue and this concerns me greatly.

We had another one-way dialogue in Washington this week on the floor of the Senate. Senator Philip A. Hart of Michigan made a statement before the Senate on the 11th of July in which he drew certain incorrect conclusions as to the attitude of the United Oil Company of California regarding production of shale oil on a commercial scale. Since the statement that he bases his conclusions on is untrue, obviously the Senator has been misinformed.

I am not going to take the time to read to you gentlemen, and take up your previous time on this entire statement, which will be released to the press today. I would just like to point out that our company, in 1958, had demonstrated a viable shale oil technology. In view of the uncertainties regarding the statute of depletion applicable to shale oil, the Government's oil import program, and the existing road oil surplus, it did not seem prudent to make the necessary capital investment required and, therefore, at that time we did not elect to build a full-scale commercial plant.

The argument that oil companies would not be interested in seeing oil shale reserves develop rapidly is without merit. Union has and is spending tremendous sums in exploration and production of domestic crude oil by conventional means. Moreover, it purchases one-third of its requirements from others. The reduction of these expenditures is a substantial inducement to ~~the~~ Union to invest in the development of oil shale and for this reason, Union maintains a viable oil shale department.

In my opinion, if the Executive Branch of the Federal Government of the United States, over the past 15 years had possessed constructive leadership for the creation of a favorable and equitable competitive environment for the oil shale industry, commercial plants would be operating today.

It is to our shame that our neighboring country to the north has done just that with the Canadian tar sand oil industry, and I hasten to add, American capital is primarily involved.

We hope Senator Hart will join other responsible men in Congress and help provide the necessary leadership to create an atmosphere conducive to similar private investments in the United States. Considering the world we live in today, indecision on this matter is the height of folly.

Thank you, gentlemen.

CHAIRMAN DONNELL: That concludes the agenda.

We have had an excellent attendance today. I can't tell you exactly, the exact number, but it must be nearly 80, which is an extremely high percentage.

We appreciate very much your taking the time to be in Washington today.

Howard?

MR. MARSHALL: I would just like to extend my apologies to the members of the Council for not being here to present in person the Resolution in Memoriam for our great friend and colleague, Bernard Majewski.

I can only plead the apology that American Airlines had two successive planes with mechanical problems in New York. I tried to leave New York at 6:30 a.m., this morning, and I apologize.

CHAIRMAN DONNELL: The meeting is adjourned.

(Whereupon, at 11:50 o'clock a.m., the Committee meeting adjourned.)