

DEPARTMENT OF INTERIOR

NATIONAL PETROLEUM COUNCIL

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In the Matter of:

SIXTY-SIXTH MEETING

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Attendance: 72 Present

47 Absent

119

19 Observers were present

ROLL CALL

NATIONAL PETROLEUM COUNCIL MEETING

FEBRUARY 10, 1972

* INDICATES NEW MEMBERS

MEMBER	PRESENT	NOT PRESENT	OBSERVER
Jack H. Abernathy	X		
Robert O. Anderson		X	Louis F. Davis
Orin E. Atkins	X		
Perry R. Bass		X	Roy T. Durst
R. E. Bauer	X		
Carrol M. Bennett	X		
Jack D. Berry		X	
Howard Boyd		X	
Harold Bridges		X	S. G. Stiles
John W. Brooks		X	Francis W. Theis
Bob Burch	X		
William V. Butler, Chairman President National Oil Fuel Institute		X	
F. Allen Calvert, Jr.		X	Minor Jameson, Jr.
C. Fred Chambers	X		
Collis P. Chandler, Jr.	X		
William B. Cleary	X		

MEMBER	PRESENT	NOT PRESENT	OBSERVER
William P. Clements, Jr.	X		
O. C. Davis		X	
I. Dawes	X		
Corwin D. Denney	X		
Cortlandt S. Dietler	X		
J. C. Donnell II	X		
David F. Dorn		X	William Hickey
Bob R. Dorsey, President Gulf Oil Corporation		X	
Robert G. Dunlop		X	H. Robert Sharbaugh
Northcutt Ely	X		
James W. Emison	X		
Stark Fox	X		
Robert H. Gerdes	X		
George F. Getty II		X	
Richard J. Gonzalez	X		
B. D. Goodrich	X		
Ford M. Graham		X	Don J. Mulvihill
M. F. Granville		X	Cecil Olmstead James H. Pipkin
Michael T. Halbouty	X		
Armand Hammer		X	William F. McSweeney
Jake L. Hamon	X		
* Warren J. Hancock, President Rocky Mountain Oil and Gas Association	X		
* F. Donald Hart, President American Gas Association	X		
Fred L. Hartley	X		
Russell C. Hartman	X		

MEMBER	PRESENT	NOT PRESENT	OBSERVER
Leon Hess		X	J. J. ^{Simons} Simons III
John M. Heumrich	X		
Joe R. Horkey, President National Oil Jobbers Council	X		
P. N. Howell		X	Alan Surosky
Frank N. Ikard	X		
Harry A. Jackson		X	
J. K. Jamieson		X	
Herbert C. Johnson		X	R. J. Murdy
J. Paul Jones	X		
John A. Kaneb		X	
George N. Kavouras		X	
W. W. Keeler	X		
Norman C. Keith		X	
John M. Kelly	X		
William F. Kenny, Jr.	X		
Alfred A. Kiltz		X	
Theodore N. Law	X		
Walter J. Levy	X		
John H. Lichtblau	X		
J. Hugh Liedtke		X	
Richard K. Lisco		X	
Frank D. Lortscher	X		
D. K. Ludwig		X	Denis Berdine
Wm. C. McCord	X		
C. B. McCoy		X	

	MEMBER	PRESENT	NOT PRESENT	OBSERVER
	Harold M. McClure, Jr.	X		
*	Ralph T. McElvenny, Chairman American Gas Association		X	
	D. A. McGee	X		
	E. Clyde McGraw		X	William Cofield
	John G. McLean	X		
*	John R. McMillan, President Western Oil & Gas Association	X		
	Cary M. Maguire		X	
	Leon V. Manry, Jr.		X	<i>C. F. Fuchs</i> Mr. Chambers
	J. Howard Marshall II	X		
*	Tom B. Medders, Jr., President Independent Petroleum Association of America	X		
	C. John Miller	X		
	Ernest B. Miller, Jr.	X		
	Otto N. Miller		X	Leslie T. Vice
	J. Cordell Moore	X		
*	W. Henson Moore, President International Association of Drilling Contractors	X		
	R. J. Moran	X		
	Robert Mosbacher	X		
	Charles H. Murphy, Jr.	X		
	William J. Murray, Jr.	X		
	Glen E. Nielson	X		
	S. F. Ninness		X	
	Richard L. O'Shields	X		
	Thomas A. Pappas		X	

MEMBER	PRESENT	NOT PRESENT	OBSERVER
T. B. Pickens, Jr.	X		
James H. Pittinger		X	
Joseph R. Rensch		X	Ed Falck
A. S. Ritchie	X		
Walter E. Rogers	X		
Arch H. Rowan	X		
Wilton E. Scott	X		
* Robert V. Sellers President Chairman of the Board Cities Service Company	X		
J. M. Shackelford	X		
John M. Shaheen		X	
John S. Shaw, Jr.	X		
J. J. Simmons, Jr.	X		
Wm. Wikoff Smith		X	
Charles H. Sommer		X	
Charles E. Spahr	X		
W. A. Strauss	X		
Thomas F. Stroock		X	
John E. Swearingen	X		
J. F. Taylor		X	
H. A. True, Jr.	X		
J. W. Van Gorkom		X	
W. M. Vaughey		X	
Rawleigh Warner, Jr.		X	Richard F. Tucker
N. H. Wheless, Jr.	X		
John H. Williams	X		
John G. Winger	X		

MEMBER	PRESENT	NOT PRESENT	OBSERVER
A. W. Winter	X		
J. D. Wrather, Jr.		X	
M. A. Wright	X		

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NATIONAL PETROLEUM COUNCIL

SIXTY-SIXTH MEETING

Auditorium
Department of the Interior
18th and C Streets, N.W.
Washington, D. C.
Thursday, February 10, 1972

The meeting was convened at 9:05 o'clock, a.m.,

Mr. H. A. True, Jr., Acting Chairman, presiding.

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P R O C E E D I N G S

MR. TRUE: Gentlemen, the meeting of the National Petroleum Council will please come to order.

It is just a little bit frightening for a country boy from Wyoming to sit up here and act as your Acting Chairman. Some of my feelings remind me of an episode involving a stranger who wandered into a rather strict midwestern town and shortly after he arrived, he was detected winking at one of the town's most beautiful young ladies, and this being against the philosophy of the town, a vigilante was rapidly organized and they properly gathered up the young man and tarred and feathered him and rode him out of town on a rail.

After they got him well beyond the city limits, dumped him off on the ground, and one of the town elders came up to him and said, "And how did you like that?" and the poor fellow looked up and he said, "Well, I will tell you, if it wasn't for the honor of the thing, I would just as soon have walked."

(Laughter)

As you know, I am serving as Acting Chairman because Del Brockett has resigned from both his company and as chairman of the NPC the first of this year. The by-laws, of course, allow that an election will be held to replace the chairman at the next scheduled meeting of the Council. This will be done later.

I would like to introduce the head table to you, skipping those who will appear on our program later.

First, Dr. William Pecora -- he is not here. He is Under Secretary of the Interior.

Hollis Dole is not here.

Gene Morrell, Director of the Office of Oil and Gas.

Everyone else will appear on the program.

As first order of business, I would like to ask Vincent Brown to call the roll and request approval of the minutes of our last minute.

(Roll call)

MR. BROWN: I would appreciate a motion for approval of the minutes of the last Council meeting held on July 15, 1971.

(Motion was duly made and seconded from the floor.)

MR. TRUE: Is there any discussion?

All in favor?

(Chorus of "ayes.")

MR. TRUE: Any opposed?

(No response)

MR. TRUE: So ordered.

Thank you, Vince.

It is now my great pleasure to introduce the government co-chairman of the Council, the Honorable Secretary of the Interior, Rogers C. B. Morton.

Mr. Secretary.

(Standing ovation)

SECRETARY MORTON: Good morning, gentlemen. It is a great pleasure for me again to meet with you.

I want to first express my appreciation for your great interest in the proceedings and the effectiveness of this great organization.

First I would like to begin by expressing my own personal deepest appreciation to Del Brockett, who has done a

splendid work for the Council during his many years as a member and as its chairman.

I hope he will permit me to join in the good wishes of all of his friends as he leaves the Council and he has served so long and so well.

Since last July's meeting the Council Task Force has completed volume 2 of its interim report on United States Energy Outlook. This work contains a wealth of pertinent up-to-date information on each of the major energy sources. Of all the studies I believe that this Council has undertaken in its 25 years this is one of the best.

I also want to acknowledge the fine work of the Committee and its Subcommittee on Environmental Conservation. They have produced the final report on this assignment and my personal thanks go to Chairmen Keeler and McReynolds and Vice Chairman Swearingen and Marshall for their valuable contribution to public understanding.

It is very apparent that the world wants to grow and develop and as a result, we use more energy and we will need to use more energy constantly in the future.

The environmentalists tell us that we cannot go on using our natural resources as we are. And, of course, they are right.

Those responsible for meeting our nation's needs for goods and services tell us that we cannot go back to where we came from and they are also right.

And I say we cannot stay where we are -- and I think I am right.

Specifically, I see no indication that the material needs of the United States will ever be less than they are today. We can reduce waste and we should. We can develop more efficient production and distribution processes and we will. We can salvage, reclaim and reuse millions of tons of materials now difficult to dispose of and too often found cluttering our landscape. We will do that, too.

We will recycle, reuse and clean up literally billions of gallons of fresh water that we are now simply draining off to the sea.

However, after we have done all of this and taken these measures to conserve our resources, we still face the enormous backlog of unsatisfied needs that can only be met by increasing levels of energy and productivity.

I refer to rebuilding our cities. Reviving our lakes and streams. Restoring the purity of our air. And, most emphatically and specifically, building a second America in which every one of the over 200 million of us will have a better life.

One thing the extremists in environmental groups do not understand is that the task necessary to enhance the quality of life can be accomplished only through the use of energy and more energy directed by an ever-escalating plateau of technology.

As you know, our current energy demand is great. It closely parallels the growth of our gross national product.

The problem of supplying this demand has been further complicated by recent court decisions, which caused cancellation of the lease sales scheduled for December 21, 1971. This has added greatly to our difficulties here.

The need for oil and gas is obvious and I am bitterly disappointed at the outcome of these decisions. I am concerned that the legislative and management responsibilities of the Congress and the Executive Branch of government are being transferred to the Judiciary, where the criteria and understanding prerequisite for fundamental resource decisions does not exist.

We are in the testing phase of the National Environmental Policy Act. The intent of the law is being established over specific issues. It was the contention of the Department of the Interior in the Louisiana case that the term "alternatives to the proposed action" as used in section 102 c of the NEPA meant only those actions which, one, lay within the authority of the Secretary of the Interior to take and two, that would produce

results within the same time frame as the action proposed.

This position has now gone by the board.

In light of these recent decisions, and in spite of the fact that there is a strong case to be made for excluding all alternatives, we are in the process of modifying our procedures for writing environmental impact statements.

We are making every effort to comply with the interpretation of the National Environmental Policy Act as it has been set forth by recent court decisions.

This will be difficult to do. It will delay every action we have programmed for developing our natural resources. It will delay the decision on the trans-Alaska pipeline by at least two months. And, incidentally, we were fully prepared to implement all of the decisions necessary in connection with this project over two years ago.

It will delay our program on geothermal leasing by about the same length of time, nearly two months.

It will necessitate a complete rescheduling of our plans for leasing tracts in the Gulf offshore of Louisiana. Here is the most prolific producing province that we have yet found on the Outer Continental Shelf.

In short, we have lost some time, but, fortunately, we have not lost the resources.

The setbacks we have sustained have made us more determined to find a way to comply with and work with the Environmental Policy Act, and yet ensure an orderly flow of essential fuels to meet the growing needs of the American economy.

All of this would be greatly enhanced when the President's program for reorganization has been achieved.

I believe a departmental resources is an absolute must in our time if we are to remain fully competitive in this rapidly changing world. It is our policy and our intention that the nation should rely in a large measure on domestic resources for minerals and energy.

It is only through the strength of our own resource base that our trading position will be firm and have the leverage to deal with the complications and the vagaries of world oil politics.

There is potentially great economic power in world oil politics and though I love all the people across the world, I must say that I would rather have my destiny shaped by friends and neighbors from Main Street America.

I am asking my staff to utilize your report and all other data available to put together a national energy policy -- for this, the time is now. We cannot wait.

Your own report on the U. S. Energy Outlook spells out clearly that our requirements for liquid fuels will rise much

faster than our ability to supply them from domestic sources.

This is a fact. And a national concern.

Present trends indicate a large share of your refined products must come from foreign supplies by 1980. We are already confronted by urgent requests for licenses to import petroleum feedstocks for the manufacture of gas.

Applications to date have been made for over 17 proposed plants that will manufacture synthetic gas from imports. These plants will consume over one million barrels a day of foreign feedstock.

These and other pressures will undoubtedly bring forward new policy and implement new mechanisms. These policies and mechanisms will deal with cost, with national security, with the quality of the environment, and with basic human needs.

This does not mean that the oil import program should be forever frozen into its present ratios. But it does mean that we must maintain a balance weighted in favor of domestic producers. For herein lies the true source of our economic strength.

The economic vitality of this great country, more than anything else, gives us the power to reach our goal as set forth by the President, a generation of peace on this earth for mankind.

At this time in this world do not be misled into thinking peace will be achieved through rhetoric, through philosophy,

or even through the kindness in our hearts. It will be achieved because we are strong. And because we do not covet the land or the riches of other nations.

In short, peace will come from the wise and humane use of power derived from an efficient use of our God-given natural resources.

Let us, then, pursue a realistic course for the perfection of our civilization. Let us begin to work on solutions to the problems which confront us. As in the past, they lie before us in men's minds. There is nothing we have yet to do, considering knowledge and the tools at our disposal, that is more difficult or more insurmountable than that which we have already done.

Let us not assume that the sun will burn out in the year 2000 and all will be over. Conversely, let us assume that the brains of men are only at the beginning in the discovery of new opportunities. Not only for man, but also for the rest of nature, which is so much a part of our life.

Let me say here that out of all the stridency and contention of the past years, I believe we have learned an essential fact. We recognize at last that there is an interlocking bond between the quality of the environment and energy demands in sustaining large numbers of people at decent levels of

comfort and well being.

Share with me the optimism of a great and strong America, of a dedicated and understanding President.

We shall fulfill the energy needs in an expanding future.

We shall enhance all that is beautiful around us.

We shall hold this good earth in trust.

We shall -- and together we can -- prove ourselves worthy of this trust, worthy of the leadership that God has set for us as a nation, in this time, on this planet.

Thank you very much.

(Standing ovation)

MR. TRUE: Thank you, Mr. Secretary, for sharing your thoughts with us today.

Certainly you have outlined many challenges and some hope for the people in our industry.

We greatly appreciate your having taken time to be with us here today.

I have been asked to announce that the security officer for this building has issued a regulation there is to be absolutely no smoking in here.

Next, gentlemen, we are most fortunate to have with us as our guest speaker today a man who has certainly been in the

forefront of the news in recent months and has certainly become a sort of a partner in each of our businesses; he is the Chairman of the Price Commission, Dr. C. Jackson Grayson.

Dr. Grayson has only recently come to government service when President Nixon tapped him for one of the key positions in implementing his new government economic policy. Prior to entering government service, Dr. Grayson had a distinguished career as an academician at Tulane, Harvard, and S.M.U.

Dr. Grayson, we are pleased to have you with us today.

(Applause)

DR. GRAYSON: Mr. True, Mr. Secretary, members of the Council, I don't know whether President Nixon tapped me to come to Washington or trapped me to come to Washington.

(Laughter)

Some days I feel it is the latter.

As you said, the Price Commission has become a partner. Whether it is a willing partner or not, I hope it is an effective partnership. And I thought this morning I would take this occasion, which is the first one I have had to talk to any industrywide group since I have come here, to make one suggestion which I think will help us in our work and which I think in the long run will benefit the members of the petroleum industry. But

before I talk about that, I would like to just quickly review with you just a few things that the Price Commission has done and why it has been done, where the program is and why I believe it is working as best it can as of today.

We have been in existence now, beginning of the phase 2, about 100 days, just a little over. And in those 100 days we have taken steps to try to design some policies to run a trillion dollar economy, about 3-1/2 weeks to come up with some policies and guidelines. There were a lot of people who said it couldn't be done and Secretary Connally just said, "I am sorry, it has to be done," and it was done.

Now, the questions we have always had before us in designing those policies, and still today, are to design policies that are the best to aim us toward the achievement of our goal. That is our mission.

We want to do so we also have firm policies, and we want to be fair.

Now, those are mighty high sounding words and to try and find the right side of those is an extremely difficult task.

At the same time that we want to achieve price stability, we do not want to throw the brakes on the economy and throw the economy through the windshield.

If our policies restrict the ability of business and labor and other statutes of the economy and the government and its functioning to be held inflexible, then we have done a disservice at the time we are trying to cure the patient from the ill.

Since we have been in office, we have done some things which we think are on the right track. I know there are questions people have and questions why we have adopted certain policies. Let me just tell you in terms of what we have under control because the emphasis has been recently that it seems as though the program is so full of holes that there are no controls. That's wrong. Under the control of the Price Commission, 100 percent of the services in this country, 85 percent of the retail sales of the nation, 100 percent of the manufactured items, 100 percent of the wholesaling business, 100 percent of the major public utilities, 100 percent in the health services, 75 percent in the insurance industry, and 100 percent in the food processing -- not in the farm production or the raw agricultural products. So there are controls and controls where we think are the trigger points to turn the inflation rate around.

We have had in the Price Commission about 3,500 requests for price increases coming from all those sectors of

the economy. We have approved about 1500 of those price increases and we have denied 66. The question is asked of me aren't you permitting the price increases to go through without many denials? Shouldn't we have a higher denial rate?

No. We have set these policies so that people hopefully can understand them and we explain them and people come in and they conform to the policies and they should, under our guidelines, get the requested price increases if they fit our policies.

We shouldn't just turn them down arbitrarily.

Many companies have gone back and have gotten new data and have come in with the correct data and when they do and meet the standards, they should be given those price increases.

When they don't, we should deny them.

We have had 462 companies which have had their price increases approved and in their sales of these companies -- that is \$353 billion of sales involved in these companies that have come in for price increases -- if you take the price increases that we have granted and apply it to the sales or the prices of those companies, we have permitted a 1.6 -- 1.6 -- percent price increase across those permits, and that is a large sector of this economy. 1.6.

The emphasis is often given in the news to the

figures that are in the higher regions -- 7 percent, or 6, or 5, or even 10 or 12. But when you apply it across the economy -- which is what we are trying to do is hold the average price increase across the economy, not every single company -- then the figure comes out to be 1.6. And about half of the firms in tier 1 have not yet been in for price increases. That is not publicized. Many of you are holding the line, doing your best to withstand cost pressures, and I think that should be made known to the public just as much as those who are granted relief from pressures they cannot stand.

Now, if we can keep that up, I think we are going to succeed and make our goal.

Now, the public is often impatient to get things done right away.

Remember, President Nixon said when he announced this that we wanted to get the rate of inflation, the rate of inflation, to 2 to 3 percent by the end of 1972 -- by the end of 1972. That doesn't mean that you can suddenly stop an economy and go to 2 to 3 percent. If you do, that is when I think you will get thrown through the windshield and we will not have the recovery that is needed in this economy.

I was in the Navy and I remember an analogy in

thinking about this, of putting the helm over on a battleship. You put the helm over, but that battleship has such momentum it fights the rudder and it takes awhile for that battleship to begin to turn. And when it turns, it turns slowly. And then moves toward its new course.

You have to reverse your helm and get the resistant forces out of the way so that you don't turn it too far in the wrong direction.

But I think of these controls somewhat along these lines. We put the rudder along in the direction of the 2.5. The economy is responding to moving towards that rate of inflation. But it can't be done instantly without doing serious damage to the recovery.

Another analogy I think of in controls is that of medicine. If you have a cold and this economy suffered from some of the symptoms, runny nose, stopped up, coughing, and you apply medicines, you take the typical cold remedies, that is not going to cure the cold. As yet it is not proven. It is going to relieve the symptoms. But something needs to get in and cure the basic cause; the controls aren't going to cure the basic illness. And they are not intended to.

There are a lot of other forces at work basically to help to cure what is wrong, and what is wrong is inflation.

It ruins everything.

Some people say the thing that can cure inflation, the monitors say you have got to control the money supply and that is where it really is. Others say tax and fiscal policy. Someone is saying Arthur Burns is the guy who should really set the tone of this. Someone else says it should be the government in controlling or expanding its deficit, whichever side you happen to be on on that argument.

Senator Proxmire asked me in one of my hearings how can you hope to accomplish it when there are so many other forces? I said we don't hold all the cards. We shouldn't. We only have the mechanisms available to us in the Price Commission and we intend to use them, but the basic forces are not in the Price Commission.

The basic forces to reduce the rate of inflation are in this room and in other gatherings like this across the economy, including labor unions and including governmental decisions inside the government itself. That is what is going to cure it.

The Price Commission isn't going to cure it.

I would like to go home. I would like to go back to S.M.U. That is where I am on an indefinite leave of absence. But I am not going back until the job is done.

There has been some discussion you have read about in the press about when are the controls going to end and there is a busy time speculating. A lot of news services are making some money coming out with speculations as to when they are going to come off.

I can tell you when they are going to come off; when we achieve our goal -- not before then.

I think it is useless. In fact, it is anti the direction of getting the controls out of the way to speculate and plan your strategies on when the controls are going to be out of the way. And this has been reaffirmed recently.

My personal view about what it really takes to cure this, and the one that I am going to make as a suggestion, is the productivity is the basic cure toward getting the economy back on the right track. That will stop inflation.

If productivity gains and labor and costs and other cost increases are offset by adequate productivity, then your inflationary rate is held within the tolerance that the country wants on the level of acceptability for the Congress. Or any other aspects of the Administration.

I would like to make a suggestion to you that there be started, perhaps by this Council and others, a serious effort to collect industrywide productivity data on which we can rely and on which you can look.

Now, I am not the first one to make such a suggestion. Just a few weeks ago Mr. Knutson, White Motor Company, called on businessmen across the country to set up a committee for American productivity. And he used these words:

"A new group, like this, composed of people who want to take action, not form study groups, into thinking about new ways of putting competitive muscle back into American industry, might succeed in accomplishing things that now look impossible. Let's not do it for business; let's do it because it is good for us, good for labor, good for the country and good for the world. For once, let's not wait for the word to come from Washington." End of quote.

And he is advocating an immediate formation of this committee and he is in the automotive engineering area, and he was making this address before that society and suggested they get started right away.

Now, I would advocate this study also could come from this industry, and if so done I advocate it because I think that is the basic way that we are going to self-destruct as a Price Commission and it won't happen overnight.

I think this study needs to be started now, not just for our purposes, but also to go beyond the existence of

the Price Commission.

I propose it because I think it could be a major breakthrough in the private sector and the existence of the Price Commission is an agency that might help in that study.

I would like to examine that last statement. Let me tell you how we now handle productivity gains in the Commission. When a firm comes in and requests a price increase they state the amount of costs they have had since the last period of time, and let's say those costs have gone up by 6 percent. We then ask them to supply productivity data from their own individual company. Now, that is very difficult to do.

Some very sophisticated companies, large companies in particular, often have fairly good data to get some kind of productivity measures. But a lot of them -- in fact, the majority of the companies -- do not have any company productivity data that they feel are very reliable.

We sympathize with that. We understand it. It has never been asked for as specifically as we are asking for it. It has to go on that form as a number. And when you write it on there, it gets subtracted out from your allowable cost to justify price increase.

So it is in your own best interest to give us the best productivity number that you can.

As I said, we are understanding about the fact that many of you do not have sophisticated measures. And all of our staff have been instructed to work with the firms as much as possible to use what data you have, but we are insisting that you come forward with some productivity data.

Now, what we would like to do is to go to an industrywide productivity data, and use that as an offset against the costs. Now I will tell you why. We haven't done that yet. But what we would like to do is to subtract out the industrywide productivity from the cost increases that you have.

Now, let's just suppose that number is 3 percent, just pick a number that is the national long-term average. If you can beat that number, you can keep those gains, in a sense, as a return to capital and the other cost, primarily the management effort, because you have been more productive than the industry average. It is an incentive for you to make capital investments because you can keep those and not have them offset.

It acts as a spur to those firms that are below the industry productivity average because you are going to

subtract out the industry average and those firms that are below it are going to have a mighty good incentive to get up to the industry average.

Now, that is not yet being done. We are considering that. And before we act, we want to take a good look at what the impact of this would be if we do it.

Now, I can tell you what-- besides having the data now very fuzzy on individual company productivity, another thing that is wrong with it, it has been pointed out to me many, many times, is that if you take away all of our individual company productivity, what is our incentive to invest? If when we increase our productivity all you are going to do is subtract it out, why should we invest?

There is some merit to that argument. There is some offsets to that on the other side of that coin in that if you beat the number that is on the form, we do not go back and make a second subtraction and roll you back. But, nevertheless, I agree we do not want to destroy the incentive for increasing productivity.

It also, I can tell you quite frankly, is really putting pressure on inefficient firms because if we take away the productivity gains from the most efficient firms, or at least, I won't say take them away but offset them and fix them at a figure, the less efficient firms in that industry

are held down because they can't for competitive forces go above the efficient firms.

Now, some people are very disturbed about that and so are we in the sense that we want to do a minimal dislocation in this economy by our policies. We hope that the inefficient firms will be spurred to move up toward the efficient firms. But our policies are not designed to change the structure of this economy. They are strictly designed to get that rate of inflation down. But we have to look at the side effects of anything we do.

Now, when you look at the productivity, there was a White House Conference, by the way, just the last few days, on the industrial world ahead here in Washington. Some of you attended. Productivity was mentioned consistently throughout those two days as being one of the things that is going to be needed in the world ahead if we are going to survive in the world economic race.

I won't repeat the figures for the other countries, but you can look at those I am sure in Japan, in Germany, and realize that we are in a very competitive race to match those economies' productivities. So it is worth doing.

Now, in making this suggestion that we try and get some industry productivity data, I am aware that BLS, Bureau

of Labor Statistics, has some figures and in discussions with them, they pointed out the problems that they have in measurement and confirm that this is not as good a figure as should be, and they would welcome any improvement in trying to get that figure better. Now, this is where you could help.

I haven't looked into all of the problems of the antitrust that would be raised if there were to be some pooling of productivity data. I am sure there would be some. But I have talked to my general counsel and asked his opinion as to whether or not you could consider following the model that was recently used by the potash industry. They came to us for an exception on some one of our rules and it required some aggregate data if we were going to make an exception. They decided -- not we -- to take the data from the individual companies and pool the data with the CPA firm who kept the data and kept it confidential and destroyed the individual company data, but gave us the aggregate.

That is all we were really interested in in this case.

Now, I don't know if that would work. I haven't had time to go to the Justice Department or talk to anyone here in this Council about this idea. I am merely stressing the need that we have in the Price Commission to get some

productivity data so that we can be fair in applying that standard against the reduction of your cost.

If you can help, if you can come up with a way to do this -- this is merely only one idea of pooling it with a CPA firm, or-- well, that may be the best place. I started to say in the government. But we back into the problem again of antitrust.

I think the best place, I would like ideas from this Council on suggestions of ways to do that.

This would help us tremendously in our work, but as I said, I am not primarily asking it for the Price Commission; I am really saying I think that, in the long run, is the only way to cure this cold.

I think in looking at that, we want to look at other things besides just speed up.

I have been in enough meetings with the labor groups to know that the word "productivity" is often interpreted as meaning all of us are just going to have to work harder and faster and we don't get as much.

I am talking of productivity in the larger sense; in new ways to do things, in going for the whole person, the quality of life. They are all involved in increasing the productivity in this country.

And with that, I think this can succeed and must succeed.

I am going to call Mr. Knutson and ask him to get started on his idea of the committee on productivity in the automobile engineering area. I would hope that you and the Council would consider ways in which you could undertake to be a part of this effort and there is a sign back at S.M.U. hanging over my desk that I still think is a good operating rule. Someone has to make it happen. And I think that someone could be you.

Thank you.

(Applause)

MR. TRUE: Thank you very much, Dr. Grayson.

The doctor has agreed to answer any questions that might be posed from the floor.

Do we have any questions or any comments to pose to Dr. Grayson?

QUESTION: Dr. Grayson, making a marriage of your speech and the presentation of the Secretary, you can see what little chance we have in improving productivity until the Secretary is successful in talking down the courts of this country in the problems facing our industry.

We have got literally throughout the industry

thousands of people sitting around waiting for decisions out of Washington, all kinds of levels. I guess you are aware of the fact we have got probably at least a billion dollars sitting around rotting on the North Slope and I could go on and on and give you many, many more examples. And this isn't for three months or six months; this is now for three years and we see no end.

We have got, I guess you might say we are all bound up in politics to a point where we can't move. And I am completely with you on your concept of "improving productivity is the name of the game." In fact, it is our industry that has been able to absorb the wage increases that have gone on for the last 30 years because of productivity. But I would also suggest to you that we have got to eliminate the time delays that our society has now got bred into it.

Secondly, I would point out to you that there can come a time when the goose that lays the golden egg is done out of laying.

If you will examine our industry, I think you will find that we have gone into bigger units of production. In fact, we in management have our necks out so far in the size of our facilities on single unit basis, frankly we are almost in an unstable condition.

Fertilizer industry is a good example of that where we have these tremendous single trained plants going gigantic sizes of horsepower; when there is a mechanical failure the entire concept collapses. And that goes into our refining systems as well.

I think I can tell you that this industry has made tremendous strides in improving productivity. Now, when you tell us to improve it more, I don't disagree with you, but I would point out to you that we need a little recognition for what we have already done. So our problem here is, frankly, one of getting rid of time delay.

I would also not get too concerned with this price increasing, recognizing what our problems are. If we can't get our profits up in our industry, the opportunity to have cash flow to do the job that has to be done to keep our country strong in oil reserves is just impossible.

Speaking for my own company, which, as you know, is in California, we have the distinguished record of now getting return on total assets employed down to 5.9 percent. I guaranteed next time I come I am going to be in public utility.

(Laughter)

DR. GRAYSON: Thank you, sir. That is helpful.

I know the ULS figures. I am speaking here mostly

as looking across the entire economy is the thing I think is basic here. That, and I still am a firm believer in competition. I said that several times I do not believe competition is dead.

On your problem of time delays, I cannot be a part of that solution, but I sure don't want to be part of that problem.

I am doing my best to get our work in and work out and to do the least to hold you up. Now, some firms have had some problems and we have tried our best and whenever I have found one of those, I have gone to work on it to be sure we have done our best to reduce the delays that would be caused in addition to the other delays that may be caused by other forces beyond our control.

I am sympathetic to the problems you face and as I said and repeat again, our job is not to kill off the incentives, so this economy can recover, and to get productivity up to the best we can do it we are not going to be that.

QUESTION: Dr. Grayson, a little earlier Secretary Norton referred to the Interview study that this Council is involved in, which shows beyond a shadow of a doubt the requirements for energy and the need for the supplying of

requirements of this country.

I am associated with the natural gas side of our industry and the shortage of new gas supplies is here in three years. There has not been as much new gas discovered developed as has been used. And we are approaching a level of deliverability that is equal to requirements. And any study that you might wish to look at, the only way that this premium fuel will be supplied in the levels required is to bring forth new supplies that can only come forth at dramatically increased cost over the old traditional supplies.

I personally believe that we will have the supplies forthcoming. I think the society and the system will demand it.

My question to you is what attitude Price Commission would take concerning dramatic cost increases for a needed base of resource that cannot come forward without tremendous cost increases?

DR. GRAYSON: One, in our policies we have never said we are going to judge whether the costs are wise costs or not. Because we couldn't possibly have the staff judgment to say whether or not the costs you are putting forth are wise management costs. We would have to go in and know your business. We will never know it like you know it.

So we increase, we let prices go up to reflect costs. So when costs come in, we must let them go through. Or else we will be squeezing the profit margins back.

Now, that is a blank, that is a general rule when it comes down to individual companies. What are the costs, how long have they been incurred, what are the productivity gains; we do run into some disagreements, but our basic policy is we are not going to stop at legitimate costs that have to be incurred in order for this economy to move forward.

I understand some of the questions you are raising. My dissertation on the subject, drilling decisions by oil and gas operators, in the process I got into this problem of how you measure the cost of finding. And I got through work of Jack McLean and others had done at Harvard and I got familiar with the finding, and the other areas of products. So I am not more familiar with this industry; I am mindful everything I say tends to get taken one way, that doesn't mean I am going to be playing favorites with this industry; I must counterbalance that, but I understand a great many of the problems and concerns that you have.

I think people have to understand, as you have, sir, the quality of life comes at a cost. It is worth

working for as the Secretary said. But I think in talks around the country, I am going to make trips around this nation in major cities, Dallas on March 2nd is the first one of such trips, to get people to understand that prices are going to be held, but that when you want something out of this economy, services of any kind, goods, you are going to have to pay for them or make hard choices. And people need to be aware of the choices that you have to make. And not very much comes for free.

QUESTION: I just point out one other aspect of this. Many aspects of our investments today are figured on productivity in the social and environmental areas. We are not fighting that. In fact, I think our industry has done more in this area than any other industry that I can think of.

We keep thinking we are right at the end of the line. I think we are up to \$150 million now in environmental investment. And it is still going at the rate of \$20 million a year.

Not only is this nonproductive investment, it is actually negative. In other words, there is a continual cost there involved.

I would like to suggest to you, Chairman Grayson,

that you take into account as a cost profit. Profit is a cost. It is the only way I know of of getting sufficient lubricant to maintain our enterprise system. And in justifying price increases in which you would take cost and subtract some productivity factor, without taking into account the need to increase profits in those industries and those aspects of a given multi-industry, multi-divisional company, I don't think you are taking into account the total picture.

I know we face that problem at the present time of how to get profits up. I think in judging the correctness of a pricing application consideration be given to this question, just for the reason of nonproductive investments society demands we make at the present time.

You have got a good man sitting right next to you there and when he was with USGS in his present position now; he never quits thinking up ways for us to spend money to improve on pollution control -- and rightly so. That is his responsibility. But I want to tell you he priced the hell out of business.

I think we have to take into account the fact we are making these tremendous nonproductive investments. We have got to have profits to go with them. So I would appeal to you that be a broadening here of the thought it isn't simply a matter

of taking so-called paid out costs which I know is the area you concentrate on we have to demonstrate and then make a productivity adjustment. With that, you end up with a number of millions of dollars a year you would allow. I think that is not sufficient.

I wouldn't take the same approach with General Motors who are already making 20 percent on sales. We are damn lucky if we make three.

DR. GRAYSON: Let me just give -- I can't answer your question completely. Let me give a partial answer to that.

The first few weeks we met as a Price Commission, we said no matter what we do, it is the best and the worst.

When you try to think of a rule to think of policies to run this economy, one is fixed percentage increase can't go up more than 3 percent. That rule was proposed; we discarded it.

Another rule that was proposed which I think was in line with your remarks is the dollar and cents passthrough. We could have said no matter what the costs are, pass them through, dollars and cents.

You think the policy now might be somewhat limiting; that really would have been limiting. You wouldn't have been able to put margins on top of that. We discarded that. We

didn't think that would adequately compensate for costs, because of problems of adequate returns of capital investment there.

So what we have done is hold the rate of profit and base period level and follow with the base period.

All I can say is I understand what you are saying, it is on the minds of the Commission members, it may not be as good in individual case, individual company, as we would like, but overall we hope we have set it at about the right point.

QUESTION: Mr. Chairman, Dave, J. Hamon and our trustees at S.M.U., I want Jack to understand when the climate and environment get so bad in Washington and he is so harrassed he can't stand it, please come home, will you?

(Laughter and applause)

DR. GRAYSON: I think there will be a lot of help to get me out of Washington.

(Laughter)

MR. TRUE: Thank you again, Dr. Grayson. Thank you especially for your having volunteered to answer questions.

DR. GRAYSON: Not at all. My pleasure.

Thank you very much, gentlemen. I have to run.

Thank you for inviting me.

(Applause)

MR. TRUE: Next order of business is a report from our Agenda Committee.

I will ask Mr. Jake Hamon, the chairman of the committee, to give that report.

MR. HAMON: Mr. Chairman and members of the Council, this is our report of our meeting held yesterday.

Pursuant to call of the meeting of the Agenda Committee of the National Petroleum Council, we met with our co-chairman, Secretary Hollis Dole, and he gave us the following letter which I shall read. It says:

"Dear Mr. True:

"The increasing dependency of this nation on imported supplies of petroleum, both crude and refined products, the sources of which vary considerably in reliability, is a cause for serious concern. At the same time, the United States appears to be increasing its dependence on refining facilities and capabilities located outside this country.

"This growing proportion of foreign manufactured petroleum products, which are necessary for the economic well being and security of this nation, is also a matter of increasing concern.

"I therefore request that the Council undertake as a matter of urgency a survey of the factors, economic, governmental, technological, and environmental, which may affect

e 2 the domestic refining industry's ability to respond to the demand for essential petroleum products that are made upon it.

"The Council should discuss these elements which are deemed essential to healthy domestic refining industry. To the extent that the problems belonging to other phases of the petroleum industry and consumption impinge upon growth and technological capabilities of the refining segment, these should be included in the analysis. Representatives of the Department of the Interior will consult with you in the near future to arrive at the detailed outline of the measures relative to this general request.

"Sincerely yours, the Honorable Hollis M. Dole, Assistant Secretary of the Interior."

Well, we discussed the Secretary's letter thoroughly yesterday afternoon and we agreed the seriousness of the problem, and so we voted to undertake the study and I so move here.

As provided in the articles of our organization, however, I want to state that we do not want the study to include plans or programs. And with that inhibition, I move that on behalf of the Agenda Committee, that the Council undertake the study requested by Secretary Dole.

(The motion was duly seconded from the floor.)

re 3 MR. THUR: It has been moved and seconded that the recommendation of the agenda Committee be accepted.

Is there any discussion?

(No response.)

MR. THUR: If not, all in favor.

(Chorus of "ayes.")

MR. THUR: Any opposed?

(No response.)

MR. THUR: It is so ordered.

At this time we will move into a report from the Committee on U. S. Energy Outlook.

For those of you who are new on this Council, we are conducting a far-reaching energy study, at the request of Secretary Morton. We have recently completed phase one of the study and are now in the midst of phase two.

John McLean, Chairman of the Committee on this study, will give us a briefing on the progress of this Committee.

John.

MR. McLEAN: Mr. Chairman, Mr. Secretary, and members of the National Petroleum Council, at our last meeting in July of 1971, we gave you a preliminary report, the Council's Committee on the U. S. Energy Outlook, and it is my pleasure at this time to give you a status report on the work that has been done since

to 4
that date.

I think you will recall that this study was undertaken about a year and a-half ago in response to a request made by the Department of the Interior which was transmitted to the NPC by the Assistant Secretary for Mineral Resources, the Honorable Hollis M. Dole.

Recognizing the pervasive and far-reaching changes taking place in the U.S. energy scene and some of the specific implications thereof, the request called for a complete study on the energy outlook from now until the year 2000.

Implicit in the request were three fundamental request. First, how much energy is the United States going to need? Second, where are we going to get it? And third, what changes in government policies and/or economic conditions in the energy industries would serve to enhance our national energy posture?

Well, in order to carry out this extensive and extremely complex assignment, the NPC Committee on the U.S. Energy Outlook was constituted. The committee in its working components now consist of something over 200 people representing all of the major energy industries. The talent and the efforts, the diligence being brought to bear on these tasks by these people is remarkable and I think without precedent. And I should like to take this opportunity to express once more my very great admiration and

are 5 deep appreciation of the excellent work that these folks are doing.

Particular appreciation is due, of course, to Warren Davis, to Vince Brown, and the chairmen of the various working committees.

Now, the study program is divided into three very different phases. In stage one, the committee undertook to project U. S. energy demand-supply relationships for the period 1971 to 1985, assuming no major changes in government policies or economic conditions in the energy industries.

In stage two, the committee will seek to identify and evaluate the various changes in government policies and economic conditions which could contribute to an improved national energy posture. Recommendations will not be made on these matters, but the committee will seek to define for the Secretary selected energy policy options, and to evaluate the consequences of each.

The committee will then prepare a few new U. S. energy demand-supply balances for the 15-year period 1971 to 1985, assuming that different groupings of the various options are adopted.

In stage three, the committee will look down the road to the year 2000 and try to develop some reasonable approximations of energy demand-supply trends to that date. In particular an

effort will be made to estimate our total energy requirement at the turn of the century and to assess in broad terms the energy resources that might be available to meet those requirements.

Let me comment on where we stand with regard to each of these three stages of the committee's work.

As Dave True has indicated, stage one has now been completed and the results have been published in two volumes. Volume one, which was a summary of the findings, was approved by the NPC and issued on July 15th. Volume 2, which contains the summaries of the studies made by the various task groups working on the individual fuels, was approved by the NPC in October and published in November.

Additionally the detailed reports of the individual task groups are now being distributed and made public through the NPC offices.

I should like to emphasize that stage one of the committee's work as summarized in volumes one and two does not represent a forecast of what will happen. It is intended to show us what would happen if we continue unwittingly down the path we are now on. It serves as a means of defining the problems and clarifying the areas in which corrective action is indicated.

The major implications of stage one of the committee's

are 7 work are perhaps worth repeating. They are three-fold:

First, continuation of present government policies and economic conditions would lead to significantly increased U.S. dependence on foreign energy resources, mostly in the form of oil from the Eastern Hemisphere countries and, second, to an acute shortage of natural gas.

Second, the potential energy resources of the United States would support higher growth rates for domestic supplies given adequate economic incentives and careful coordination of effort between industry and government.

Third, the capital requirements to meet U.S. energy needs through 1985 are extremely large and will be difficult to obtain unless the general economic climate in the energy resource industries is improved.

In short, the findings of stage one demonstrate quite clearly that some changes in the economic climate and government policies are urgently needed.

Now, stage two of the committee's work, the identification and evaluation of possible changes in government policies and economic conditions, which would contribute to an improved U. S. energy posture, is currently in process. The results of this work we hope to have in hand and ready to present to the Council at its July meeting.

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I am pleased to inform you at this time that the analytical machinery necessary for the execution of the stage two study program has already been completed. Economic models have been developed by the study groups for each major fuel. These models will permit analyses of the impact of changes in geological, engineering, technological, economic, environmental, and political factors on the volumes or costs of fuel supplies.

Programs have also been set up to measure the sensitivity of total energy demand to changes in various economic and political factors.

Specifically, the following models have been developed during the past several months and are now ready for use:

The Oil Supply Task Group has prepared a model which measures the incremental domestic crude oil supplies which might be obtainable at various levels of exploratory drilling and exploratory success. The model also permits projections of future production rates on the basis of reserves in place and varying recovery rates.

The Gas Supply Task Group has likewise prepared a model which measures the incremental domestic natural gas supplies which might be obtainable at various levels of exploratory drilling and exploratory success. Again, the model permits projections of future production rates on the basis of reserves in place.

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The Oil and Gas Supply Task Groups working together have prepared a combined oil and gas model which makes it possible to measure the capital investments and operating costs related to various levels of drilling activity and exploratory success. With this model, it becomes possible to compute the oil and gas prices which would correspond to various rates of return on investment, various levels of drilling activity and exploratory success, and various volumes of oil and gas supplies.

The Nuclear Task Group has prepared a model which identifies and quantifies the inputs to the industry necessary to accommodate any given schedule of future uranium demand. Among other things, the model develops estimates of the investments required for exploration, development, mining, and milling, as well as estimates of processing costs at each stage. With this information, it is possible to compute the uranium prices that would correspond to various rates of return on investment for various levels of uranium supply.

The Coal Task Group is developing a model which will make it possible to estimate the costs of incremental coal supplies which might be forthcoming based on the consideration of the quality and location of undeveloped reserves, different mining methods, and various economic and environmental factors. Similar studies are being made with regard to synthetic gas from coal and

liquids from coal. These projections of synthetic fuel supplies will be correlated with coal cost data from the coal model.

The Oil Shale Task Group has developed a model which evaluates the effect various synergetic prices would have on the recoverable reserves of oil shale and the effects on these values of variations in component supply costs. The group has also developed alternate synergetic production schedules through 1985, taking into account such factors as construction logistics, environmental criteria, water availability, infrastructure, and the related costs thereof.

In general, the underlying objective in the development of all of these models has been to set up a systematic framework in which it will be possible to evaluate the impact which various changes in economic and political factors might have on our domestic energy supplies. Among other things the models are designed to reveal the response in either volumes or costs of domestic supplies to such things as changes in the taxation system, the methods in timing of federal land leasing, import controls, and environmental constraints.

Now, once the consequences of each selected energy policy option has been evaluated separately, then several compatible groupings of these options can be put together, and we can then develop overall U.S. energy demand-supply balances for the

are 11

period 1971-1985, assuming adoption of such options.

Thus far, I have been talking primarily about the supply side of the energy equation. The committee is also directing a good deal of attention to the possible variations in total energy demand which might arise from changes in basic political and economic parameters. The Energy Demand Task Group is evaluating the possibilities for increasing efficiencies in fuel utilization. It is also considering ways and means of moderating the growth in energy consumption and the economic consequences thereof.

I would not want to leave you with the impression that the Committee on the U.S. Energy Outlook attaches any undue significance, much less any magical properties, to these economic models that it is developing and using in stage 2 of its work. These models are properly regarded simply as tools which the committee will use in its task of defining and quantifying a series of energy policy options to lay before the Secretary of the Interior.

Stage three of the committee's work, a long-range look at our energy demand-supply picture to the turn of the century, is in the preliminary stages at this moment. We expect to complete the broader aspects of it in time to report to you in July, but it may be late in the year before stage three is fully

are 12

completed.

Well, gentlemen, this completes my report. We have, without a doubt, a tremendous amount of difficult work ahead of us. But nevertheless I think it is fair to state that at this point in time, we have completed at least the first half of our assignment.

We appreciate your interest and cooperation, and we also are very appreciative of the great interest that is being shown in this study by government, by business, the academic communities, and by the American people.

This interest is manifest in the many visits and calls we are receiving and by the fact some 4,000 copies of volume one have already been requested and distributed.

The committee continues to work with a great deal of diligence and enthusiasm. And I am confident that the final product will be one which can be of very considerable value to the Secretary of the Interior.

Thank you very much.

(Applause)

MR. TRUE: Thank you, John.

I certainly want to add my comment in my general 11 years of experience with this Council, this is certainly the largest, most complicated and probably most meaningful, or among the

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most meaningful of all studies undertaken by the Council, and I think I speak for the entire membership when I thank John and his various committees for the tremendous amount of work they are doing on this study.

Our next order of business is the Committee on Environmental Conservation. The Council has completed its assignment from the Interior Department and Bill Keeler, our able and hard-working chairman of this committee, will present it to you at this time.

Bill.

MR. KEELER: Mr. Chairman, Mr. Secretary, members of the Council, it certainly gives me a great sense of satisfaction; the second volume of our study, "Environmental Conservation--The Oil and Gas Industries," has been released to the public today. With the publication of this massive volume, we have now completed our assignment to the Secretary of the Interior to place all pertinent facts before the government officials charged with making policy decisions involving pollution control regulations which may affect oil and gas operations.

We now have before us what amounts to the most complete and extensive study ever done for the industry, indeed any industry on what is one of its most pressing problems and serious commitments, environmental conservation.

are 1/4

For the past two years the National Petroleum Council has been diligently preparing this report. As you know, volume 1 containing key comments and conclusions and summary of volume 2 was released about a year ago. An extensive amount of time and editing has gone into the preparation of this 450 page report to make it as complete and forthright as possible.

I believe that the report will be used as a text by those who are vitally concerned about the environmental conservation and I certainly highly recommend it for that purpose.

It will be useful for those of industry for whom it may help to crystallize the picture and government officials, university professors, students and environmentalists who are sincerely interested in knowing what is being done and what is left to do.

The report is not an answer in itself. It is instead a beginning. It is the industry saying this is where the problem lies; this is where we are making progress and this is where more work needs to be done.

It is a beginning because it is the first complete compilation of the facts that we have had. It is not an attempt to hide the fact or delude ourselves with those facts.

Judging from the response that was generated among the members of the legislative and executive branches of the government when volume 1 was released, our report has not fallen on

are 15

deaf ears. Many senators and congressmen as well as representatives of federal agencies wrote to us congratulating us on our efforts.

At previous Council meetings we had discussed extensively the conclusions of the report. I will mention several of the more important ones near the end of my remarks.

Although the report is lengthy and highly technical in nature, I hope that the general public will at least take a look at what we have compiled here. For that reason I would like to quickly go over several of the items in the report which the public thinks of when they associate the environment with the oil and gas industries, oil spills and blowouts.

The first thing to come to mind is oil spills. This is a problem that must be dealt with forthrightly and realistically, because it will not go away. The image of Santa Barbara beaches and the Torrey Canyon spill are vivid in people's memories.

It should be emphasized the best way to deal with this problem is to prevent it from happening in the first place.

Progress has been made, but, as the report points out, more is needed.

One of our key conclusions is a call for more advanced and widely used standards, practices and facilities for the prevention and control of spills.

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Where adequate facilities for the disposal of oil wastes are not available, they must be provided at terminals, shipyards and marine facilities.

The prevention of major oil spills resulting from mishaps and tanker transportation of oil requires the continuing attention and cooperation of industry and government. This includes improved transportation support services, such as weather forecasting and navigational aids, as well as improved shipping lanes which would help minimize accidents. Better education in the training of ships' crews is also required. In addition international cooperation must be sought to improve standards of vessel designs and operation to prevent pollution.

The report points out that the importance that the industry attaches to pollution control in drilling operations is adequately indicated by the large investment required and provided particularly in marine operations to prevent a mishap.

A few spectacular and very serious accidents in marine areas have drawn undue attention to what is a relatively safe operation. Marine activities are today generally safeguarded by highly sophisticated remotely controlled or automatically activated safety devices. Of the 14-- what is it? -- 14,000 --

Where is Leo?

A VOICE: Yes, 14,000.

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MR. KEMMER: Of the 14,000 -- that is a big figure -- marine wells drilled through 1970, 9,000 of them are on the Outer Continental Shelf. There were only 25 blowouts, three of which were extremely serious.

Containment and recovery -- in the area of containment and recovery, mechanical devices available have not always proved absolutely effective. Likewise absorption materials present logistical problems of both dispersal and collection which are not adequately met with present equipment.

Treatment -- means of treatment also provides some drawbacks with further efforts called for. Relying on dispersion by winds, waves and currents, proved unsatisfactory. Combustion has had little success. Materials for sinking oil have been successfully demonstrated but questions of possible adverse effects on sea-bottom fauna and marine life have delayed application.

Dispersants have proved effective and their use is frequently restricted because of possible toxicity to marine life, especially in shallow waters.

Contingency plans-- the report cites contingency plans as an effective way of dealing with the problems of spills. Contingency plans are being developed by companies and harbor cooperatives are being formed for the pooling of equipment when an oil spill occurs beyond the capability of the individual company.

There are over 70 of these individual cooperatives in existence or under development.

Refining -- Another area of public concern is adequate refinery operations. The report cites actions by members of the industry over a period of many years to reduce pollution resulting from their operations. Control is exercised over both water effluents and airborne emissions, and precautions are taken to dispose of solid wastes in a manner acceptable to regulatory agencies. We state that more advanced and sophisticated environmental control equipment must be developed, however, and placed in operation to keep ahead of societal demands.

The nation's 281 refineries all have waste water treating systems of varying efficiencies designed to handle various types of liquid and solid wastes.

Refineries require relatively large amounts of water for cooling, processing, steam generation, sanitation and potable use, but much of it is furnished by recycling.

Emissions -- the report concludes that the use of petroleum products is the source of only about one-fifth of the sulfur dioxide emissions in the United States. The industry has made substantial progress in lowering the sulfur content of its products. Since World War II, for example, the already low sulfur content of the lighter liquid petroleum fuels -- gasoline, diesel

are 19 fuels and home heating oils -- has been further reduced by more than 50 percent.

Other conclusions of the report -- before I close, there are several key conclusions which I believe should be reemphasized:

1. If a cooperative approach to the solution of environmental problems is deemed to be in the public interest, then the executive branch should clarify the extent of cooperation that is consistent with the intent of present antitrust laws.

2. The United States should not pursue a policy of precluding or delaying exploration and development of the potential petroleum resources of its submerged continental margins if our energy needs are to be met.

3. Conflicting jurisdiction and authority among and within governments with respect to offshore pollution hamper effective control and enforcement, and should be effectively resolved.

4. In the determination of environmental quality standards, the cost-benefit factor to society and the impact of that factor upon our economy should be taken into account.

5. The costs associated with environmental conservation and control must be borne by society.

6. Imposition of economic penalties is not an effective means of attaining optimum environmental conservation and

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may prove counter productive.

7. Proposed regulations for the reduction of lead in gasoline should be realistic to provide for such reductions as are necessary to reach practical emission goals at a minimum overall cost to the public.

Finally, I would like to reread the summary conclusion of volume one, which was previously distributed, because it pretty well sums up the spirit of this report:

"It is the conclusion of the National Petroleum Council, an industry advisory body to the Secretary of the Interior representing virtually the entire American oil and gas industries, that these industries are conscious of their significant responsibilities for environmental conservation and are sincerely dedicated to a continuing and effective approach to the solutions to those environmental problems which lie within their purview.

"The oil and gas industries are well aware of the environmental problems resulting from the conduct of their various operations of production, refining, storage, transportation and marketing of products, and also outside these industries, from the use of their products. Real progress has been made in defining these problems and developing solutions to them; but, nevertheless, problems remain.

Continuing progress will be required to improve standards and to develop more advanced technology and better operating practices and equipment to achieve improved environmental quality.

"The oil and gas industries face a requirement to provide to the society of which they are a part vital energy in a manner consistent with environmental conservation, recognizing that the costs involved are those of society. We are confident that these industries will continue to do their part, including full cooperation with government and with the general public which they serve, so that the requisite environmental standards can be developed and met, consistent with providing the nation with its necessary energy.

This second volume has been approved previously by the Council, so there is no need to approve it again. I do, however, commend it to you as an excellent document on an important subject.

I want to again say I certainly appreciate the wonderful cooperation of members of the Council, the committees involved in preparing this report, and finally, I mentioned on behalf of Leo McReynolds, who was chairman of the subcommittee which we appointed. He has asked me to express his sincere thanks to all members of his committee who devoted so much time and effort to this monumental effort, report. He has the highest

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regard for Vince Brown; he had Farrington and Peter Tule, all with EPC, who assisted him in this huge task of editing this report, which I recommend you study.

(Applause)

MR. TRUE: Thank you, Bill.

I am sure that you will all agree with me in giving thanks to Bill Keeler and his hard-working committee for preparing this timely, meaningful and useful report for the Council and for the Secretary of the Interior.

We have a number of distinguished guests with us this morning. Time will not permit the recognition of all of them.

There are three that I would like to especially mention and ask them to briefly stand for our recognition.

The Honorable Harry Camp, Congressman from Oklahoma.

(Applause)

MR. TRUE: He was here just a few minutes ago.

Secondly, Governor John Davis, Director of Civil Defense, in the Department of Defense.

Governor, are you still here?

A VOICE: He left.

MR. TRUE: I am batting 300 percent, so I will admit defeat and mention Elmer Bennett, who was here earlier; he is, of course, the Deputy Director of the Office of Emergency

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Preparedness.

Secretary Norton.

SECRETARY NORTON: I would like just to take a few more moments of your time to particularly thank Chairman McLean for his interim report.

We are looking forward to this energy report from the Council and we need this material. I hope it will be in in July on schedule. I think this will be a real foundation for the work which lies ahead of us.

Secondly, I think we will all be eternally grateful here in the Department for the work Chairman Keeler just reported on in the very comprehensive volume on environmental conservation.

We have done a lousy job I think in going into this phase of environmental conscience that we have been in in the last several years in really getting the facts to the public in a way they can be understood and in a way that we can outline some specific goals of balance.

I am sorry that I was not here for the whole report. I had to go up and swear in our new Director of the Office of Saline Water, Pat O'Mara, and there were many of his friends and guests on hand for that, so I had to do it at ten o'clock.

I also want to address myself to two other things. One is the two things Fred Hartley so succinctly brought up; the

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question of assets that are idle because of these delays.

First, please believe us that this is something we want to work our way out of. We want to get into a system of compliance with the act in carrying out the intent of Congress in a way that does not continually tie up capital assets and prevent programs from going on as scheduled.

Hopefully we are coming out of the valley. We are learning how to do this. As I said in my remarks, the act is being tested. In fact, in my opinion it is being rewritten to a great extent. And we are going to have to face up to this and we are going to have to face up to it I think over a period of time Congress itself.

Secondly is the matter of political decisions in the environment. And I know that a lot of political decisions have been made by many people. Not only political decisions made by the administration in power, the leaders in the Congress, but also have been made by industry itself in some cases, and we are hopefully working our way into making decisions that will not adversely affect economic growth because the result is disastrous when this happens.

And I think that this report and our interpretation of it and our use of it as an educational tool to begin to get the public more aware of what real balance in the environment is will be of real importance, and so I look through it hastily here this

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morning, but rest assured, Bill, that we are going to study it and we are going to extract from it wherever we can information that will be transmitted to the public in an educational way.

And finally, I would like to thank Dr. Grayson for coming here this morning with us and giving us an enlightened concept of his responsibility in the price war.

I just wanted to emphasize those points.

Thank you very much.

(Applause)

MR. THOM: Thank you, Mr. Secretary. And rest assured, as co-chairman of this Council, all members are most interested and most receptive and most anxious to receive your comments as we go along.

Next, as I mentioned earlier, circumstances have dictated that we have a special election for a report of the Nominating Committee. I will call on its chairman, Carroll Bennett.

MR. BENNETT: Mr. Chairman, Mr. Secretary, your Nominating Committee, consisting of Messrs. Mike Wright, Charles Spahr, Baxter Goodrich, Bill Vaughey and myself, would like to nominate the following for the positions of Chairman and Vice Chairman:

Chairman - H. A. True, Jr.

Vice Chairman - Robert G. Tunlop.

I move the adoption of this report.

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(The motion was duly seconded from the floor.)

MR. BENNETT: Thank you.

MR. TRUE: You have heard the motion and it has been seconded.

Is there any discussion?

Any in favor?

(Chorus of "yes.")

MR. TRUE: Any opposed?

(No response.)

MR. TRUE: Thank you, Carroll, and thank you, gentlemen, for this great personal and I believe what I consider a critical time for our industry, a most challenging assignment.

I will certainly do everything I can to justify and warrant your confidence expressed in me. And I will certainly -- Bob Sellers -- make every effort to avoid inexcusably stupid actions, such as I performed in introducing you. I hope you will accept my apologies.

(laughter)

MR. TRUE: In the past months since our last meeting two members of Council have passed away. They are Leo D. Guttman, the late president of the National Oil Jobbers Council, and Charles S. Mitchell, the late chairman of the board of Cities Services Company.

For the purpose of presenting a resolution in memory.

Mr. Guttman, I would like to call on Mr. Joe Horkey, the current president of the National Oil Jobbers Council.

Mr. Horkey.

MR. HORKEY: Mr. Chairman, members of the Council, I would like to present this resolution in memory of my good friend Leo Guttman.

"The members of the National Petroleum Council record with sorrow the death of one of its distinguished members, Leo B. Guttman, on October 23, 1971. In many ways Leo Guttman contributed most in terms of his service to people --- public service, hospital boards, fraternal and charitable organizations all received the benefit of his sustained efforts and interests.

"It was the petroleum industry, however, that was the continuing strand in an eminently successful career. Early experience as a service station employee sparked the interest that led to the founding of his own firm, which during his 40 years with the same supplier became one of the most successful and largest distributorships in the state of Pennsylvania.

"His business interests also extended to tire supply, industrial gas distribution, river transportation and real

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estate development and construction.

"Despite the many demands upon his time, Leo was known as a warm, friendly, outgoing and intensely likeable human being. At the time of his death he had added to his long and productive service to the National Oil Jobbers Council by serving as NOJC President.

"Today the members of the Council take this opportunity to pay tribute to the memory of Leo D. Guttman. The many contributions that he made to the nation's oil jobbers will long be remembered. All of us are saddened by his untimely death. We extend to his wife and family our most sincere and deepest sympathy.

"Now, THEREFORE, BE IT RESOLVED, on this tenth day of February 1972, in the City of Washington, D. C., that this resolution be entered upon the permanent records of the Council, and an appropriate copy thereof be delivered to the family of Leo D. Guttman as a remembrance of the affection and respect which we shall always have for him."

MR. TRUE: Thank you, Joe.

With the concurrence of the members, we will wait and approve both resolutions at one time.

I would now like to call on Bill Keeler to present a resolution for Charlie Mitchell.

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MR. KEELER: Mr. Chairman, gentlemen, 42 years ago I met a tall, slim, then 130 pound engineer from North Carolina. Shortly after that -- this was during the Depression -- we shared a little room with a couple of cots and a rocking chair, which Charlie used pretty regularly, and since we had no money, we spent most of our time talking about what the heck we would do if we were running our respective companies.

(Laughter)

I was most happy in 1968 when I had a chance to send Charlie Mitchell a telegram saying:

"All right, what the hell are you going to do about it?"

(Laughter)

Gentlemen, it was a real personal loss to me. I thought the world of Charlie Mitchell. He was a great guy and a great American. And I am so proud to have had the opportunity to know him and know him so well.

I propose a memorial resolution to Charlie Mitchell:

"The members of the National Petroleum Council note with a deep sense of loss and sorrow the passing of their colleague Charles S. Mitchell on January 1, 1972.

"Active in the petroleum industry for nearly 40 years, Charles Mitchell was one of its outstanding leaders.

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In that time, he became associated with nearly every phase of the petroleum and natural gas operations. Among the most important in his leadership for his conception, construction and operation of some of the nation's leading pipeline systems. His distinguished career with the Cities Service Company culminated when he was named chairman and chief executive of the company in 1968, a post he held until his death.

"As a member of the National Petroleum Council, Charles Mitchell was an active leader in the work of the Council, having served on several of its studies. His advice and wisdom were the subject of respect by all who knew him.

"Today the members of the National Petroleum Council pause to pay tribute to a friend and leader who they will sadly miss. We can only say that we are grateful to have been associated with him. To his wife and family we extend our sincere and abiding sympathy.

"Now, therefore, be it resolved on the tenth day of February 1972, the City of Washington, D. C., that this resolution be entered upon the permanent records of the Council and an appropriate copy thereof be delivered to the family of Charles S. Mitchell as a remembrance of

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the affection and respect which we shall always have for him."

MR. TRUE: Thank you, Bill.

Gentlemen, I would like to ask that we signify our approval of these two resolutions of tribute to Bill Guttman and Charlie Mitchell by standing for a few minutes of silence,

(Moment of silence.)

MR. TRUE: Thank you, gentlemen.

Are there any further items of business, either new or old, to come before this Council?

Dr. Gonzales.

DR. GONZALES: Secretary Dole, Chairman True, members of the Council, I have a point to call to the attention of the Council as a matter of record.

I objected in writing to Chairman Brockett since last July to the sentence appearing on page 43 of volume 2 on the "U. S. Energy Outlook" stating that "free world oil requirements could be covered by existing free world proved oil reserves even if we assume there are no gross additions to reserves realized during this period."

I pointed out that on the basis of the figures in the report, this statement would mean the production in 1985 would be 33.5 billion barrels from remaining reserves of 160 billion

re 32 barrels, indicating a ratio of reserves to production of less than five to one, which seems highly unreasonable to count upon.

My concern was this statement could be used to support the erroneous view that such a great surplus of oil exists that there need be no concern about encouraging exploration and development.

The preliminary draft circulated for comment and approval was modified -- not by changing the sentence at issue, but by adding explanations that the assumptions in the sentence were unrealistic for the reason that I cited and for the reason that there will be gross additions during the period 1971 to 1985.

That explanation should help to avoid misuse of the sentence in question. The committee considers that the change made meets my objection.

But an explanation of why the statement is incorrect does not seem to me as logical a solution as a revision making such explanation unnecessary. For that reason, I did not approve volume 2 and request that the record reflect the reason for my negative vote.

MR. THUR: Thank you, Dick, and the record will reflect your negative vote and the reasons therefor.

DR. GONZALES: Thank you.

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MR. TRUE: Are there any other items of business?

Secretary Dole, do you have any comments you would like to make at this time?

SECRETARY DOLE: No, Mr. Chairman, I do not.

It has been a fine meeting. I think you have accomplished a lot. I congratulate all of you.

MR. TRUE: Thank you, Mr. Secretary.

If there are no further matters for our consideration, before we adjourn I would like to announce that a press conference has been scheduled in the Secretary's Conference Room, Room 5150, and will be held immediately upon the adjournment of this meeting.

Thank you all for coming and the Sixty-sixth Meeting of the National Petroleum Council will stand adjourned.

(Whereupon, at 11:13 o'clock, a.m., the meeting was adjourned.)