TRANSCRIPT OF

MEETING

of

STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA

April 27, 1967
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<td>(a) Clarence D. Jones</td>
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<td>(b) Gordon Homes Inc. dba Paradise Cove Sportfishing</td>
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<td>(f) Pacific Tel. &amp; Tel. Co.</td>
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<td>(g) H. K. Porter Co., Inc.</td>
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*Item 30, Page 50, reproduced separately on stencils*

NEXT MEETING 8
APRIL 27, 1967 - 10:10 A.M.

GOV. FINCH: We have a quorum. I will call the meeting of April 27th to order.

Unless there is objection, we will consider the minutes that were sent to the members approved.

Do you want to cover item 3, Mr. Hortig?

MR. HORTIG: Yes, Mr. Chairman. The Commission has before it applications for permits, easements and rights-of-way to be granted to public and other agencies at no fee, pursuant to authorizing statutes, and the consideration for issuance is the public use and benefit.

The applications are as listed: City of Napa; City of Pittsburg; Department of Public Works, Division of Highways; and two applications, one from the County of San Joaquin and one from the County of San Luis Obispo.

It is recommended that these permits, easements and rights-of-way be authorized to be issued.

GOV. FINCH: What is the phrase, "Normal rental to be required should a charge be made for public use and access"? Does the State get any use out of that at all, on the City of Napa item?

MR. HORTIG: Yes. Normal rental would be required if the City of Napa used it for other than municipal purposes and if it goes into commercial development of the type that the State Lands Commission could authorize for these same lands.
GOV. FINCH: Do they have to bring that back to us at that time?

MR. HORTIG: Yes.

MR. SMITH: I move that item 3 be adopted.

GOV. FINCH: Adopted. Item 4?

MR. HORTIG: Item 4 before the Commission consists of permits, easements, leases, and rights-of-way to be issued in accordance with established rental policies of the Commission -- which are predicated, as the Commissioners will recall, on either the fee established by statute for recreational permits or regulatory fees in connection with commercial structures on tide and submerged lands, which are in turn based upon appraised value of the property to be occupied; the items being as listed in (a) through (h) -- with respect to either the issuance of a new permit for an easement or lease, or the assignment of existing leases. All the fees are in accordance with the requirements of the statutes and rules and regulations of the State Lands Commission.

Therefore, it is recommended that authorization be granted for the issuance of permits and approval of the assignments.

GOV. FINCH: Without objection, item 4 is approved.

Item 5?

MR. HORTIG: Item 5 represents, with two exceptions -- items (a) and (b) -- requests for deferments of drilling requirements in all the remaining items, on existing leases.
Item (a), the geological survey permit -- the term would be extended for Atlantic Richfield Company, this permit having been authorized by the Commission.

Under item (b), a new geological survey permit would be issued to Union Oil Company of California for offshore geological exploration, in accordance with the statutes and rules and regulations of the Commission.

The remaining items are requests for deferment of drilling requirements under existing leases; that is, I should say, (c) through (f) -- deferments of drilling requirements under existing leases, where the staff has recommended that the granting of these deferments is equitable under the terms of the lease and in view of the development of the lease.

GOV. FINCH: Are these for a period of time?

MR. HORTIG: Yes, sir; they are for a period of six months.

Item (g) is the recommendation for acceptance of a cash bonus payment offer, pursuant to competitive bidding, for oil and gas lease on 480 acres in Butte County, which high cash bonus offer was offered by Great Basins Petroleum Company.

Item (h) is recommendation for authorization to the Executive Officer to publish a notice that the Commission intends to consider offering an oil and gas lease for 5,600 acres tide and submerged lands in Solano and Contra Costa counties. Under the statutes, the Commission may not proceed
with the offering of such a lease until a notice has been

given to the counties in which the lands are located, and
giving the counties an opportunity to object and to ask for
a hearing with regard to offering such lands. Failing such
request for hearing, there is the authorization to proceed
with the offer for competitive bidding. *

GOV. FINCH: I move item 5.

MR. FLOURNOY: Without objection, so ordered.

Item Number 6 -- three items relating to the City
of Long Beach. Is there any discussion or objection to any
of those items, gentlemen?

MR. HORTIG: Item (c), Mr. Chairman, is not in
the normal routine of continuing operations of Long Beach,
as the matters have been to this Commission for approval at
previous meetings; but it is recommended in view of the ex-
tended period of time that has elapsed since the start of
operations at the Long Beach Unit Wilmington Oil Field, and
in view of the inability of the State Lands Division to con-
duct an in-depth audit of the field contractor's books and
operations, that the Lands Commission obtain from interested
certified public accountants with oil industry experience
proposals to conduct an extensive audit of the field con-
tractor and its operating company, and to report back to the
Commission the estimated costs and benefits, together with
proposed financing and recommendations to consider whether
a consulting contract should be issued for this purpose.

* Mr. Flournoy came into meeting at this point.
GOV. FINCH: Do I take it we have not had an
independent audit of the operations to date?

MR. HORTIG: Not a complete audit. There have been....

MR. SMITH: Who is authorized to conduct audits?

MR. HORTIG: The Auditor General conducts an audit; but both the auditors of your division, Mr. Smith, and the
auditors of the State Lands Commission who are on the ground.

MR. SMITH: And they did audit it?

MR. HORTIG: That's correct.

MR. FLOURNOY: I notice in your write-up you say we are short about four budgeted auditors in the division itself, on the staff.

MR. HORTIG: This is correct.

MR. FLOURNOY: And presumably once we are able to fill those vacant positions and upgrade the specifications and whatever, this would be a function that the Lands Division itself would perform. If we were in a position to do it ourselves, we would do it now, but we are unable to do so.

MR. HORTIG: This is correct; but we have a two-year backlog that we should do before this.

MR. FLOURNOY: And you are requesting an auditor to do that?

MR. HORTIG: This would be the proposal to the Commission, after receiving proposals from organizations qualified to do the work.

MR. FLOURNOY: That would be on open competitive
bidding?

MR. HORTIG: On proposals.

MR. SMITH: What would be the difference between the audit conducted by the private concerns and one by the Auditor General's office?

MR. HORTIG: The one by the Auditor General's office is for the Legislature and is not reported in detail to the State Lands Division or to the State Lands Commission. Second, the administrative responsibilities that are charged to the State Lands Commission, toward which the audit should be conducted to see that these are being properly conducted, are not always inquiries for the Legislature. So you have the difficult question of one audit for a particular purpose, whatever is directed by the Joint Legislative Committee on Auditing, as against the control audit for the operating administrative agency.

GOV. FINCH: I move approval of item 6.

MR. FLOURNOY: Without objection, it will be so ordered.

Item Number 7, boundary line agreements -- three items involving lands along the Petaluma River and the City of Santa Barbara. Is there any discussion or objection to approval of those items? (No response) Without objection, they will be approved -- which brings us to information or discussion on the status of litigation.

MR. HORTIG: Nothing beyond that which is reported
for the Commission's information in the written agenda item.

MR. FLOURNOY: I notice that the position that we had taken with regard to requesting some six months on the Long Beach-Los Angeles suit has been denied by the court and they gave us thirty days or something to get in our position. Where do we stand on that?

MR. HORTIG: After that denial -- and the Deputy Attorney General who is handling that action is not with us this morning, but I did check with him as of yesterday -- the Office of the Attorney General is filing a demurrer in connection with this action, and so the determination of the court or the decision of the court on that demurrer will be the next step. Then that will determine the procedure that will be carried on by the Attorney General's Office in reference to this litigation.

In the interim we are proceeding with attempting to secure, however, as consultant to the Attorney General's Office, the consultant authorized by the Commission at the last meeting.

MR. FLOURNOY: We haven't been able to do that yet?

MR. HORTIG: Not specifically. We had hoped we might arrange an in-service contract -- that we might be able to avail ourselves of the services of the Public Utilities Commission -- but found they did not have, in the final analysis, extra time available.

MR. FLOURNOY: Very good. Any other questions?
(No response).

Then we will move to Item 9 -- Bidding procedure for the purchase of oil field tubular goods, Long Beach Unit, Wilmington Oil Field.

(This item reproduced in stencil form)

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(Following presentations on Item 9:)

MR. FLOURNOY: The only other matter is the next meeting, which we have set for the 25th of May, which I assume will be some place around here, and due notification will be given.

With that, the meeting is adjourned.

ADJOURNED 2:55 P.M.

*****
CERTIFICATE OF REPORTER

I, Louise H. Lillico, reporter for the Office of Administrative Procedure, hereby certify that the foregoing pages one through eight, and pages one through seventy on Item 9 which have been reproduced on stencils, contain a full, true and accurate transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION held at Sacramento, California, on April 27, 1967.

Dated: Los Angeles, California, May 16, 1967.

[Signature]

Louise H. Lillico
STATE LANDS COMMISSION

MEETING AT

SACRAMENTO, CALIFORNIA

April 27, 1967

TRANSCRIPT OF THAT PORTION OF THE MEETING IN REGARD
TO CALENDAR ITEM 30, ITEM CLASSIFICATION NUMBER 9

BIDDING PROCEDURE FOR THE PURCHASE
OF OIL FIELD TUBULAR GOODS
LONG BEACH UNIT, WILMINGTON OIL FIELD
PARTICIPANTS:

THE STATE LANDS COMMISSION:

Hon. Houston I. Flournoy, Controller, Chairman
Hon. Robert H. Finch, Lieutenant Governor
Hon. Gordon P. Smith, Director of Finance
F. J. Hortig, Executive Officer

OFFICE OF THE ATTORNEY GENERAL:

Warren J. Abbott, Deputy Attorney General

APPEARANCES: (In the order of their appearance)

Jack Gomperts, President, Scandinavian Cooperative Wholesale Association of California, appearing on behalf of California Council for International Trade

Robert J. Kilpatrick, Attorney-at-Law, Long Beach, representing Pipe Sales Company

A. S. Hayes, Union Pipe, Inc., representing Sumitomo Metal Industries, Ltd.

David A. Hayden, Attorney-at-Law, representing California Council for International Trade

Albert Perish, Chairman of the Board of Foreign Trade Association of Southern California, and Director of West Coast Metal Importers Association

Nelson A. Stitt, Director, United States-Japan Trade Council, Washington, D.C.

Richard C. Bergen, Attorney-at-Law, representing California Oil Field Suppliers Association

John R. Van de Water, Economic Consultant, domestic group

Gerhard Rostvold, Consulting Economist

Lee Peake, Manager of Sales, Kaiser Steel Corporation

Robert F. Rooney, Economic Consultant to foreign group

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MR. FLOURNOY: We will move to Item 9 -- The Bidding
Procedure for the Purchase of Oil Field Tubular Goods, Long
Beach Unit, Wilmington Oil Field.

We have a rather long list of people who have indi-
cated they wish to make presentations to the Commission on this
calendar item. I think it is fair to say at the outset that the
members of the Commission have a good deal of information on
the background at the present time, so I hope the witnesses will
restrict themselves to the most pertinent aspects of their
presentation, so that we can proceed on this matter.

The first witness is Mr. Jack Gomperts, President ...

MR. HORTIG: Mr. Chairman, might I interrupt? I
believe for the record and before hearing the witnesses, the
following should be added to the record, if I may.

First, the City of Long Beach, as Unit Operator, has
transmitted for itself and the Field Operating Contractor, a
statement that the City endorses a policy recommended by THUMS,
the field contractor, favoring domestic purchase of tubular goods.
This report adds a possible third alternative for Commission con-
sideration to those reported on page 51 of your agenda --
specifically, rescission of the existing resolution and concur-
rence in the recommendations of the Field Contractor and the
City of Long Beach relative to pipe purchasing procedure and
standards.

Second, the Commission has received letters supporting
continuation of the existing pipe purchasing procedures from the
following:

Letter dated April 19th from Paul Lucas, General Mana-
ger, Western Division, Mannesman Export Corporation;
Letter dated April 21st from Mr. Rae F. Watts, Port
Director, Port of San Francisco; and
Letter dated April 24th from William F. Flay, Jr.:

Vice President, Tricon, Incorporated.

MR. FLOURNOY: Now we will proceed with Mr. Gomperts.

I would suggest, as we have ten people who have to appear, that
we try to hold it down, if we can, to somewhere around five
minutes if that is feasible; otherwise, we can be here all day.

MR. GOMPERTS: Mr. Chairman, my name is Jack Gomperts.

I am president of the Scandinavian Cooperative Wholesale Society
of California which annually exports Pacific Coast agricultural
products worth about ten million dollars. Also, I have the
privilege of serving on Governor Reagan's Advisory Committee on
Foreign Trade. However, I appear today before this Commission
as president and in behalf of the California Council for Inter-
national Trade, which consists of firms and individuals involved
in California's international commerce, representing import, ex-
port, transportation, financing and investment, law, licensing,
manufacturing, and agricultural production.

Gentlemen, permit me to respectfully point out that
today's hearing and the decisions to be made by the California
State Lands Commission based on the testimony here presented
have a vital relationship to the well being of millions of people
here and abroad. The issue at hand is of imperative concern to
the commerce of not only the State of California, but also to
that of our great nation and of much of the free world; and be-
cause of the subject's great importance, I plead with you that
you give us, as well as the other side, at least one and one-
half hours including fifteen minutes for rebuttal.

The world at large recognizes the dominant position
of the United States in all areas of human endeavor, not the
least of which is to strengthen the world's economies by expand-
ing international trade between men of good will everywhere.
As much as it might serve some interests to have your Commission consider this issue as a purely local matter, the facts should speak against this.

The policy decision of this Commission on a matter that has a direct bearing on the international commerce of the United States will be regarded in any quarters as American policy or, at least, as a barometer of our nation's regard for international trade relations.

Certainly it is obvious there is a widespread interest in California's new Chief Executive and in the policies of Governor Ronald Reagan's administration. The decision of your Commission on an issue so very closely related to the economy of California, to the trading practices of our country, and to the international commerce of our trading partners undoubtedly will be viewed as reflecting the policies of our Governor's administration.

The issue at hand, in our opinion, is not only, "Bidding Procedure for the Purchase of Oil Field Tubular Goods, Long Beach Unit, Wilmington Oil Field"; it is also California's policy on international commerce. Is it our policy to strengthen our own economy by selling California products in foreign markets while preventing our overseas trading partners from selling in California? Or is it our policy to recognize international trade as a two-way street, with the country which buys from us being allowed to sell to us?

As the distinguished members of this Commission are well aware, the pros and cons on the question of open competitive bidding on purchases for the THUMS project were presented at a Commission hearing in August of 1965. And, in the light of the facts presented, the Commission ruled accordingly.

The facts remain the same. Added to them, however,
is the evidence of substantial savings for the taxpayers and the
citizens of California -- or, to put it another way, the very
real potential for considerable increased revenue for the State
of California -- as a result of a policy and of a procedure of
purchasing quality products from the lowest responsible bidder
in open competitive bidding by all interested suppliers.

There are those who would have this Commission ignore
the facts, take no heed of the savings realized, who plead for
special privilege and who ask that the Commission ruling of 1965
be reversed for their own benefit. It behooves us, therefore,
to again state the facts for the record. We welcome the oppor-
tunity to do so because in stating the case for open competitive
bidding we reiterate our faith, basically our faith in the
American system of free enterprise.

As the staff of your Commission has been informed, we
have here today a panel of men intimately acquainted with the
case at hand, experts in their respective fields. In the time
allotted we will endeavor to present the pertinent facts with as
little duplication as possible. I have been asked by those who
share my views to act as coordinator for our side and with your
permission I will introduce them in a logical order.

First, I should like to dispel some misconceptions
about the actions of the Commission that have been bandied
about our State lately. I have before me a clipping from a
Compton, California, newspaper dated March 12, 1967, which says,
and I quote: The following is a statement released by the
California Manufacturers Association concerning California and
U. S. firms losing 91% of the East Wilmington oil field steel
business to foreign firms.

The statement goes on to say, quote: "THUMS of Long
Beach, -- T - Texaco, H - Humble, U- Union, H- Mobil, S- Shell --
in April of 1965 requested they be allowed to give business to
the domestic producers." Has the Commission, we ask, ever pro-
hibited the THUMS management from giving business to the domestic
producers? Furthermore, it is ironic if, in truth, these Amer-
ican oil companies forming the THUMS consortium actually favor a
protectionism policy. After all, Texaco through Cal-Tex has
heavy investments in the petroleum business in Japan. Humble is
the principal domestic subsidiary of Standard of New Jersey,
which operates world-wide. Union enjoys huge sales of crude oil
to Japan and has an equity position in a Japanese refining com-
pany. Mobil has refinery and sales outlets in Japan, as does
Shell. Also, I understand both Union Oil and Mobil buy consider-
able quantities of Japanese pipe for use in the United States.

Why, we ask, is it all right for these companies to invest and
sell abroad, but in their management decision on THUMS close the
doors on their good customers?

In asking for special privilege for an industry that
does not produce in California the pipe being discussed here to-
day, they say nothing about the State's stake in the $213 million
worth of commercial aircraft and spare parts sold to foreign
customers by Convair, a California producer, from 1957 through
February of this year. Nor is there any mention made of the
great contribution to California's economy made by the Douglas
Aircraft Company, another California producer, through its
sales to overseas customers. In the years 1950 through 1965
Douglas sold more than one billion dollars in commercial air-
craft to foreign buyers, and as of February of this year,
Douglas had on hand unfilled orders from foreign customers of
$1.1 billion.

What about the $137 million Japan spent in California
buying Douglas commercial air transports? Is it proposed that
This Commission tells Japan: "We welcome your spending your hard-earned dollars in California buying our commercial aircraft and millions upon millions of dollars worth of our agricultural products, but we will not allow you to bid in competition with America's steel industry on pipe for the Long Beach Uni of the Wilmington Oil Field."

I submit, gentlemen, this would be immoral, unfair, unbusinesslike, and, if permitted, a shameful blow at California's international commercial interests, and a taint upon our own integrity.

Those asking for special State government favor also state, erroneously, that the Federal Government "has asked for all kinds of voluntary restraints to restore our balance of payments so that the funds we send overseas more nearly match what are spent here."

Yet, the record of the Commission's 1965 hearing on this matter includes a statement by the then U. S. Secretary of Commerce that it was not the policy of our Federal Government to deal with the balance of payments problem by tampering with our import-export trade. This is still our Federal policy. Permit me to read a letter from the Acting Secretary of Commerce dated April 21, 1967. It is addressed to me as president of the California Council for International Trade. It reads:

"Dear Mr. Gomperts:

This is in response to your inquiry regarding the current applicability of a statement made by Secretary Connor in August 1965."

Then he gives the statement that Secretary Connor made in August:

"In your telegram of August 23 you asked if we favor curtailment of imports as a method of helping adjust our balance of payments." We have excluded this as a technique to improve our balance of payments since it would be inconsistent with our policies for the expansion and liberalization of world trade.
"I cannot comment on the specific case mentioned in your letter of August 19, but we expect choices between domestic and foreign goods to be based solely on commercial considerations."

The letter continues:

"I am aware of no significant difference in prevailing policy that would necessitate changing that statement.

Sincerely yours,

(s) A. B. Trowbridge
Acting Secretary of Commerce"

The statement attributed to the CMA also says:

"Good management should be allowed to manage without second-guessing by government" Is it good management, we ask, to deprive the taxpayers of California, who, after all, are paying $5% of the cost of the THUMS project, of the substantial savings made possible through open competitive bidding? Is it good management to be blind to California's vital interest in an expanding international trade and to favor one domestic industry while slamming the door on the buyers of California-manufactured and agricultural products in our overseas markets? Is it good management to ask this Commission for special privilege and obvious protection from competition by reversing the 1965 policy ruling -- yet, at the same time, suggest to this Commission that the management is better qualified to determine what is best for California in the THUMS matter?

Contrary to the view expressed in the statement I have just referred to, and with all due respect to the management of THUMS, we say that this State Lands Commission has the responsibility to look out for the interests of all the people of California and is obliged to decide the issue at hand in terms of what is best for California today and with a view to the future.
In taking issue with the published statements of the California Manufacturers Association, we wish to point out the fallacies of the arguments advanced by them. We intend no criticism of the organization itself.

In concluding, I would like to conclude with a statement by the Baus & Ross Company of Los Angeles, representing the California Manufacturers Association and the California Oil Field Suppliers Association, under the heading "Suggested Editorial #2." It begins: "It's time to take another look at the curious 'free trade' clause affecting operation of the largest tideland oil field in the State of California." It goes on to say, "Now that we have three new men on the State Lands Commission, it may be possible to change the wording from 'lowest bidder' to 'lowest U.S. bidder.' With $60 million of California oil field business at stake, let's hope so." End of suggested editorial.

Gentlemen, with California's more than four and one-half billion dollars of international trade at stake, we hope not.

Thank you very much; and now I would like to introduce our next witness, Mr. Kilpatrick.

GOV. FINCH: That firm of Baus & Ross is the same firm that handled Governor Brown's campaign.

MR. KILPATRICK: Gentlemen, Mr. Gomperts started out his remarks with a request that we be allowed an hour and a half with fifteen minutes for rebuttal. The Commission has suggested we keep to five minutes. I think I need a ruling, because if I am limited to five minutes I would have to tear out half of what I want to say. May we have the time we have asked for?

GOV. FINCH: The members of the Commission have to be
out of here at twelve. I propose that we proceed on the basic
that you make your total presentation in an area of thirty-five
minutes. We will give you some rebuttal time, depending on the
timing. We want to resolve this today.

MR. KILPATRICK: I was not aware that the members had
to leave at twelve.

GOV. FINCH: So I would suggest that you try to make
your full presentation in the magnitude of thirty-five or forty
minutes and that will give us time for rebuttal and some ques-
tions on it.

MR. KILPATRICK: Then I would like to file with the
Commission a written statement which I prepared.

I want to make three points: First and most important,
this is the only agency that represents the interest of the
people in this case; the agency which has the clear duty to
decide this in the interest of the people is the State Lands
Commission.

Twenty months ago this same matter came up. You now
have had twenty months of experience and should know what the
results have been. You have been purchasing superior pipe of
equal or better quality. You have saved 13.4%. If it were
Japanese, it would be over 15%. The estimated savings for 1967
are over one million dollars. That is enough to drill five free
wells.

There has been declining bidding by both domestic and
foreign producers in the twenty months, in the face of more
exacting bid requirements and rise in price of steel. In the
face of these facts, THUMS makes a vague statement that it is
the policy of the domestic producers to buy domestic steel.
That is not the fact.

Twenty months ago we told you that there was not
unanimity among the members of THUMS that they should buy domestic. We also told you that Standard Oil Company of California and numerous other domestic producers use exclusively imported pipe in their operations. Union Oil has been using large amounts and Tidewater has been and still is using large amounts in California and elsewhere.

In the light of these facts, the statement of THUMS can only be regarded as irresponsible. I suggest it is irresponsible simply because THUMS has no financial stake in this thing. THUMS gets approximately 3% of the net revenue, but also gets 3% of the costs; so it makes no difference whether the drilling is cut in half or double.

The same thing applies to the City of Long Beach. The City is entitled to 20% of the revenue, but the maximum they can receive by the law is $250 million. I understand that the net revenues will far exceed the limit the City can receive. The cost could be increased by twenty million and the City would have no interest in that.

There is only one organization that has any interest in saving the cost to the people -- because the people are the ones who will be affected by the saving, or save the extra cost. That is this Commission. That is why the law says you have the ultimate authority to obtain the maximum economic return out of the tidelands.

If this were simply a technical operation, you would leave it to the contractor and City, but where you fail to make a policy to save millions of dollars for the people of the State, I would say you were derelict in your duty to the citizens.

The second thing -- you must protect yourself from a conspiracy in restraint of trade. This was brought out in detail in the Subcommittee on Economic Development of the
California Legislature, in considering the consequences of the Buy American Act. Those people in their report -- which, by the way was concurred in by all the Republican and Democratic members of the committee except for Assemblyman Lanterman, who is here -- conclude that it eliminates competition and the report says in part (I will try to summarize it because of the time limit and again I remind you there is agreement by the committee) -- it emphasizes the high cost of State and local purchases due to total and arbitrary elimination of foreign competition; the ban on foreign suppliers has created near monopoly conditions and notable lack of vigorous competition among bidders. The report winds up:

"The repeal or reform of the California Buy American Act would produce substantial savings for both the State and local governmental units and would thus reduce need for either additional burdensome taxes and/or excessive and unnecessary deficit financing. In the search for a solution of the often very serious fiscal problems, this reduction in cost of government purchases must not be ignored."

I heard yesterday in Long Beach that the administration hopes to save $20 million a year toward the present deficit. Here is a million dollars that can be saved in 1967 alone and a conservative estimate of $6 million over the life of the project.

When it comes to the price of tubular goods, the Commission has reason to be concerned about the danger of excessive prices. We said twenty months ago that of the seven producers in this country, they publish their prices for every point in the country, what it will cost you to buy one foot or ten thousand feet. These are the earmarks of a fixed price.

We also said out of seven of the producers, four have been convicted of fixing prices in steel products. At the same time, U. S. Steel has just been convicted of fixing
prices and rigged bids for steel forgings; and, again, U. S.
Steel has been convicted recently of a price fixing conspiracy
on cement-lined steel pipe.

Let me say that today I understand there are some
350 Federal, State and local bodies and private companies which
have civil actions pending against the cement-lined and other
steel industries. The complainants include the City of Long
Beach, City of Los Angeles, and States of California, Washington
and Oregon.

You don't have to have convictions against price fix-
ing to solve this problem and I suggest the only way you can
protect yourself against that problem is open competitive
bidding.

My final point is on the argument made by the pro-
ducers to get away from open competitive bidding by saying that
a number of their non-profit services make them equivalent.

Let me back up to make one additional point. I told
you how the prices are set in this country. Well, we can docu-
ment it if the Commission wants -- that outside this country the
producers will, when they have to, throw away the book and in
one instance set a price 16% below their U. S. price.

How we get back to services to the State of California
that make their prices equivalent. Their claim is that the
State of California derives economic benefits from the local
distributors of domestic pipe that they would lose if they
bought foreign pipe. This is based on several erroneous assump-
tions that only the commissions on domestic pipe stay in Cali-
ifornia. The commissions that Pipe Sales Company makes are
earned in California, spent in California, and the corporation
pays local and State and Federal taxes. The same statement can
be made for Union Pipe Company.
The second is that the oil field supply industry depends on seamless tubular goods for survival and if they don't get this, they will go to the wall. This is erroneous. We have appended a list of companies who supply everything from hoses to rigs, who have nothing to do with tubular goods.

Finally, the argument assumes that jobs of technical and engineering personnel will be lost if we buy imported pipe. Again, this isn't true. In the first place, THUMS makes very little use of technical or engineering personnel or anybody. Secondly, if they call upon distributors of imported pipe for technical services, the distributors call to their aid the independent California companies which provide the finest technical and engineering services to the whole California industry.

The whole argument is based on erroneous assumptions. To summarize, there are no benefits to the State of California to buying domestic over buying imported, and the State saves millions of dollars which go directly to the Treasury and are multiplied in jobs created far in excess of what domestic producers contribute.

You need protection against excessive domestic prices and you are the only body who has any interest for the people of the State of California in the savings to be effected.

GOV. FINCH: May I ask a question? Supposing this State Lands Commission were simply to rescind the action of the earlier body, with no injunction that they buy domestic, what evidence do you have that THUMS would then not, on the basis of its own self interest, resort to open competitive bidding?

MR. KILPATRICK: Because THUMS has said to the City of Long Beach and to the State that it recommends buying domestic. It says this is the usual policy of its members and good
oil field practice among domestic producers, and they ask permission to do it.

GOV. FINCH: But by your own testimony, or maybe the prior witness's, they were not in agreement with it. It was not a unanimous vote.

MR. KILPATRICK: It was not unanimous, but it was a majority.

GOV. FINCH: What was the vote?

MR. KILPATRICK: I can't tell you for sure. I think it was three to two. It is my understanding that Mobil voted against it. Let me answer you a bit further....

MR. SMITH: What about the other participants -- what are their views?

MR. KILPATRICK: I can only say what THUMS and the City said -- that their views are the views of the majority of the participants.

MR. SMITH: In terms of their own self interest, the prior witness made a long case about each of these companies having vast interests abroad and I don't think it will necessarily follow that they will prejudice their own interests abroad by necessarily purchasing domestic steel.

MR. KILPATRICK: Let me answer you this way: The procedure the law sets up is that THUMS will make this recommendation, the City will decide and the State will tell them what to do. The Commission has forty-five days to order a hearing to consider a modification. When this came up, THUMS asked for domestic supplies and the City said, "Yes." I am sure that letter is in your file from 1965. I don't see any other conclusion that if they can't go their way, they will go the way you recommend they can. I don't see how you can risk this and take no position. These people have no interest in
MR. SMITH: In our job of protecting the people the State Lands Commission is in a sort of paradox. It is a State agency, not a private business. As a State agency, it has the responsibility to abide by State laws. We have the paradox of protecting the people on one side; whether or not it is purchased in California or abroad, the Attorney General says it does not apply to THUMS. I am speaking about the State Lands Commission, so we do have a sort of paradox.

MR. FLOURNOY: If I read the Attorney General's opinion correctly, it does not apply to any governmental purchase which is for resale -- which covers THUMS as well as the State Lands Commission. We are in the production of oil.

MR. KILPATRICK: You are correct. The Buy-American Act does not apply here or to THUMS for two reasons -- one is the Lands Commission is a State body and THUMS is a private contractor.

As I said, the act is under heavy fire by both Republicans and Democrats in the Legislature.

MR. FLOURNOY: What you are saying about the rescission of this resolution, on the best evidence we know what THUMS will do if we take that position.

MR. KILPATRICK: Yes.

MR. FLOURNOY: They could change at a subsequent time, of course, it is conceivable; but it is not conceivable on the evidence we have today.

MR. KILPATRICK: Procedurally, under the law this is what has to happen if you were to rescind your previous position: THUMS would make a decision and the City would say yes or no. If the City -- -- I see one of your staff members shaking his head --
MR. ABBOTT: Mr. Chairman, Chapter 130 gives what we call economic control to the State Lands Commission, and this is handled by the annual plan. This matter under consideration is, in my opinion, of such a nature that it could be in the plan -- but it is not. The City, recognizing the economic aspects of the problem, notified the State Lands Commission in 1965 that it proposed to go this way, by endorsing the recommendation of THUMS, and it asked, in effect, for the views of the Commission. The City accepted those views. It didn't have to, because it was not in the plan.

The Commission reserved jurisdiction when it made this first resolution. It wanted to review the policy after there had been some experience, and this is the time for the review.

MR. FLOURNOY: My understanding of the relationship here is that the resolution, according to information that we got from the Attorney General, as it was brought up the last time, falls in the nature of an advisory proposition; but the action itself is the day to day kind of action which is the responsibility of the field operator.

MR. ABBOTT: I wouldn't say that -- not on this particular item, because of its vast economic effects.

MR. FLOURNOY: Because of its economic effects it could be our problem?

MR. ABBOTT: I have no doubt it could be in the plan, but it is not. Not being in the plan, the City is free to do what they wish.

MR. FLOURNOY: So whatever we decide, the City can do what they want to do?

MR. ABBOTT: That is correct; but I would say that the City has sought the advice of the staff.

MR. KILPATRICK: Could I respectfully dissent from the
position stated? I do not see how -- when you are charged under
the statute with the duty of getting the maximum economic recov-
ery out of the operation -- the City could say, "Costing six
million is not part of the plan and we won't tell anyone about
it and go ahead with it the way we want." I know of no way this
could be done.

MR. GOMPERTS: Mr. Chairman, our next witness is Mr.
Hayes....

MR. FLOURNOY: Would you identify yourself, Mr.
Kilpatrick?

MR. KILPATRICK: Robert J. Kilpatrick, representing
Pipe Sales Company, a California corporation, which is the sales
company for a Japanese producer.

MR. FLOURNOY: Mr. Hayes is our next witness.
MR. HAYES: Mr. Chairman, my name is A. S. Hayes. My
company, Union Pipe, Inc., is an American-based corporation
representing the interests of Sumitomo Metal Industries, Ltd. of
Japan.

We of Union Pipe began our sales efforts with THUMS
before its incorporation on March 25, 1965. Understandably, we
were advised that it was too early for official purchasing policy
covering pipe or any other commodity.

However, in April, in a sudden move, all casing and
casing requirements for the remainder of 1965 were ordered from
firms handling domestic pipe. Local suppliers carrying stocks
of imported pipe were overlooked. The action was unanticipated
and in the interest of expediency and definitely not policy,
it was explained.

We were confident we could earn a position with THUMS
if given the chance. Quite naturally, with the most fabulous
drillling program in California history taking place in our own
back yard, we wanted to take part. We believed there was logic in our participation. (1) We were an established California distributor; (2) we represented one of the most modern seamless API pipe mills in the world; (3) our prices were very competitive; and (4) our products had been acceptable to American oil companies, including individual THUMS members, for over ten years.

Then, in mid-summer, the climate changed dramatically. Sides were formed and battle lines drawn. THUMS' board of directors voted three to two favoring the use of domestically produced pipe. Surprisingly to us, the internationally-minded City of Long Beach concurred with this decision, apparently overlooking California distributors storing high quality API Japanese casing and tubing in a Long Beach pipe yard and ignoring the distinct price advantage of these products; and evidently disregarding the tremendous export-import traffic generated by Japanese ships in Long Beach Harbor, plus the opportunity to extend relations with California's number one trading partner.

Reluctantly, but imperatively, Union Pipe entered this battle to retain a position. Eighteen months have now elapsed since the first open competitive bidding, and as a major pipe supplier for THUMS during this period, we would like to describe our performance to the Commission. Selling to oil companies is not a one-shot performance of order writing and goodbye and good luck. It means genuine, forthright personal relations in the office and in the field; it means accurate and efficient attention to detail; it means integrity of delivery promises; it means high quality of product; and it means service before and after sale.

Our personal relations with THUMS have been among the very best we have ever encountered. Cooperation was complete.
Our attention to detail, or paper work, was cited as outstanding by all parties concerned -- the pipe yard people, the inspectors, the perforators, and THUMS. We have always met deadlines. The quality of our pipe has been complimented by all those handling it -- once again, the pipe yard people, the inspectors, the perforators, and THUMS. Recently, THUMS held a special inspection in an effort to isolate flaws that might not be found in API procedural inspections. Special equipment was used and a well known consultant was called in to judge. The Sumitomo pipe was judged as outstanding.

Rendering service after sale to THUMS has been minimal because of the performance of our pipe and because of the tremendous five-company pool of engineering talent within THUMS. However, our storage yard provides emergency phone numbers and manpower to accommodate on a 24-hour-a-day basis. We have serviced customers at midnight and on weekends. On two occasions during the eighteen months, THUMS changed specifications after delivery of product and subsequently asked us as a favor to return the pipe to our stock. Though the total money involved was in excess of $50,000, we did return the pipe to our inventory.

Recently, there have been publicity releases issued by the side favoring exclusive use of domestically produced pipe, emphasizing the importance of trouble-shooting teams in servicing pipe for THUMS. The inference seems to be that this side has an exclusive on the talent in this department. On this point, I can speak only for my company -- Union Pipe. I was born into the California oil industry; my education and practical experience were aimed in that direction; and I once held a position as mill representative for an eastern mill, in which my only duties were pipe inspection and handling complaints.
In other words, I was paid to be a pipe troubleshooter.

In our eighteen months working with THUMS, we have never once been called upon for pipe troubleshooting services. However, should the occasion demand it, our company would enlist the specialized talents of independent inspectors, testing laboratories, or even consulting petroleum engineers to service and satisfy the customer. We have done this in the past—although, as I said before, it is hardly necessary with a talent-laden organization such as THUMS.

It has been mentioned from time to time that the price differential between domestically produced pipe and imported pipe has not been as great as anticipated, that it was only 9%, or a later figure of approximately 13 1/2%. This is a true composite for all imported pipe but not true for the two California distributors for Japanese pipe. Generally speaking, on the large tonnage items, the differential has been 15%; although because of the recent price rise of domestic pipe, the current differential is 16 or even 17%

I would like to point out at this time that throughout the 15-month period of open competitive bidding, suppliers of domestic pipe have been disqualified for not submitting firm prices. However, we have remained firm.

I would like to make one point: Until this year our mill, Sumitomo Metals, could not produce welded pipe in diameters above 18 inches; and, consequently, we forfeited a large share of the pipeline market. However, this year our diameter will be increased to 40 inches by a new mill. That new mill is being manufactured now in Torrance, California.

Sumitomo Metals is a great modern steel-producing facility, functioning in a great democratic government. The ships of Japan are daily visitors to the great Port of Long
Beach. And California is its number one trading partner.

That is our package. We thank the Commission for allowing us to reveal its contents at this meeting.

MR. FLOURNOY: Any questions? (No response)

MR. GOMPERTS: Mr. Chairman, our next witness is Mr. Hayden.

MR. FLOURNOY: We are running a little long on this, so if you can expedite it we will be much obliged.

MR. HAYDEN: Mr. Chairman, in view of the time problem I will try to make my presentation as brief as possible.

I am David A. Hayden of the law firm of Graham James & Rolph in Los Angeles. On behalf of the California Council for International Trade, I wish to submit the following statement concerning the procurement procedures of the THUMS Long Beach Company for purchase of oil well casing and tubing.

The Council has a keen interest in the procedures to be used in the THUMS project and wishes to respectfully draw the attention of the State Lands Commission to the following facts:

(1) The Buy American Act does not apply to the THUMS project.

Proponents of restrictive bidding often advance the Buy-American Act as a ground for a policy which would restrict bidding on tubular goods to domestic producers. It is clear that the Buy American Act by its terms does not apply to the THUMS project; it applies only to purchases made by the State Government or its agencies. THUMS Long Beach Company is a private company and is therefore exempt from the express terms of the Buy American Act.

(2) The statute creating the THUMS project expresses a policy of economy.

In determining the policy of the State of California
It is necessary to look to that statute which created the THUMS project. That statute makes no mention of a restrictive procurement policy. Rather, it provides a policy that the oil, gas and other hydrocarbons of the Long Beach tidelands should be developed for the benefit and profit of the State of California. Furthermore, the statute imposed upon the Commission the responsibility and, indeed, the duty to look at the plans submitted by THUMS and the City of Long Beach to accomplish the most beneficial and economic development and exploitation of tideland oils for the benefit of the people of California.

Section 5(b) of the statute provides:

"After the hearing, the Commission may order modification of the plan in any respect if it finds that such modification is necessary to promote good oil field practice, to prevent waste of oil or gas, to promote the maximum economic recovery of oil and gas . . . . covered in whole or part by the contractors' agreement."

The statute envisages a review by the State Lands Commission of the proposed plan of THUMS and imposes upon the Commission the responsibility to review the plan for the greatest economic recovery of oil and gas. This review is intended to insure the development of the tidelands' hydrocarbons in a manner consistent with the interests of the people of the State of California. Based on the statute, the Commission in 1965 adopted a policy of free and competitive bidding for the THUMS project.

The staff of the Commission have determined that there have been savings of 12.62% through June of 1967 as a result of the free and competitive bidding procedures adopted by the Commission in 1965. Projecting this through 1969, the staff predicts $3 million would be saved if the present policy of open bidding is continued.
It is clear that continuation of the present bidding policy would result in the most economic recovery of oil and gas from the tidelands. We believe it is the responsibility of the Commission to exercise its clear statutory authority to accomplish this purpose.

In accordance with Section 5(b) of the statute, we wish to call to the attention of the Commission a letter of THUNS Long Beach Company to the State Lands Division dated October 10, 1966. THUNS pointed out that imported pipe has been satisfactory. In the letter THUNS expressed some concern about the delay which might be occasioned by the use of imported tubular goods, although they indicated that there was no delay so far but they feared delay might occur in the future, so they suggested that future purchases be made from the domestic California suppliers. THUNS did not express any dissatisfaction with imported pipe or recommend that bidding be restricted to domestic pipe. We understand that THUNS did recommend this restriction to the City of Long Beach. We have been unable to determine the reasons for this change in their position since last year.

In view of the performance, economy and efficiency with which foreign mills have supplied pipe to the THUNS project, the proponents of restrictive bidding have discarded their arguments concerning the quality and cost of pipe. They now seek to frame the argument in terms of protectionist as opposed to free trade policy. They have conceded that the quality and performance of imported products has been equal to or superior to that of domestically produced goods.

(3) Importation of pipe would not be harmful to the United States.

The position of the United States Government is that
procurement procedure for pipe should be determined on the basis of commercial considerations. Furthermore, the welfare of the United States, and especially of California, is directly dependent on foreign trade. California business depends directly on trading with our foreign customers.

We believe the interest of the people of all of the State of California exceeds that of any industry. As we pointed out, California industry depends on markets abroad to develop California products. It is our understanding that the Port Director of the Port of San Francisco points out:

"Aside from the potential saving in public funds, we feel the Commission is making a meaningful gesture to countries abroad whose purchases of California exports add substantially to this State's manufacturing, agricultural, and maritime economies."

Also, in a letter from Funkist Growers, there is the following conclusion:

"We are not experts in the percentage of importing of pipe, steel, and so forth; but we feel strongly that the California exportation of citrus fruit and, undoubtedly, manufactured products of others, is far more. Therefore, we would urge the Commission to include foreign suppliers, as well as domestic suppliers, in the purchases of the Wilmington Field."

I would also like to put into the record a statement of Mr. A. Setrakian of the Raisin Committee. The statement concludes:

"I would remind you that California agriculture does not have any monopoly in any market of the world, either in assortment or volume or in quality. We therefore urge you to use all your persuasiveness to see that the State Lands Commission allows free bidding on pipe and tubular products. We want to see two-way trade expanded not restricted."

Other statements have been given to the Commission of a similar nature.

And let the record show, gentlemen, that this
overseas commerce benefits other industries as well as California's agriculture. May we point out that exports account for approximately 10% of the total sales of one of the State's major companies, Kaiser Steel. Kaiser owns 40% of the Hamersly Mine in western Australia; almost all of its abundant iron ore is being bought by Japan. Kaiser Steel currently sells Japan an annual average of $10 million in iron ore and $24 million in iron pellets. All of this is shipped through California ports.

Can anyone in good conscience seriously argue against the advantages to us as well as to our overseas trading partners of open, competitive international business? Certainly not those who benefit from two-way trade.

In closing, gentlemen, I would like to point out that the responsibility of the State of California and the State Lands Commission is to develop the tidelands in Long Beach consonant with the benefit of the people of the State of California. It is not the responsibility of the State Lands Commission or the City of Long Beach or THUMS to make decisions affecting our trade policies. It is especially important that this Commission not make a decision to jeopardize our position abroad. The responsibility of the State Lands Commission is to develop the THUMS project in the most economic and beneficial manner, which can be accomplished by free, competitive bidding.

MR. HORTIG: Mr. Chairman, might I request, for the benefit of the reporter, it would be helpful if future witnesses would be requested to summarize their statements as much as possible, in lieu of speedy reading?

MR. FLOURNOY: Mr. Perrish is your next witness, also representing foreign trade.
MR. PERRISH: Gentlemen, my name is Albert Perrish, Chairman of the Board of Foreign Trade Association of Southern California, and a director of the West Coast Metal Importers Association, both of which organizations I represent today.

In business life, I am the President of Winter, Wolff and Co., Inc., a steel jobbing firm in southern California, which handles primarily imported steel, but also domestic steel. Our firm also handles tubular products from West Germany and Japan, and although we do not supply casing -- which is the issue today -- we would be in a position to bid on it in the future and it is conceivable we could be a supplier at a future date. The point is our operation is typical and could be typical of the steel importers that are existing and operating in our area, and their place in the economy of Southern California.

We employ 35 Southern Californians, all of whom are American citizens and pay taxes in southern California, in exactly the same way as the oil field equipment supply houses do. We operate the same way they do; we pay taxes; and carry stocks on hand -- and all the money we have, we feel, goes into the economy of Southern California.

The difference in our operation is that most of our material comes from abroad, whereas all of theirs comes from various other parts of the United States.

It has been stated in the newspapers and there have been many arguments that the imported tubing used on the THUMS project puts many Americans out of work. They also state it takes money out of circulation and sends it abroad. They give the impression that we who handle imported steel are a different class of citizen than those who handle domestic steel. They feel it is incumbent upon them to legislate against us, as though we were not a part of the Southern California economy.
I should like to make it very clear that as a result of the material we handle -- and let's assume it's API casing -- as much or more of our money goes into Southern California as theirs, using as an example a thousand tons of tubular goods coming from abroad. If it comes, it must come in a vessel. For each thousand tons of steel that hits the dock, approximately $2,000 is paid to the Harbor Department for wharfage and dockage fees. Another $7,000 is paid to longshoremen and stevedores for removing the steel on to the dock. We feel these longshoremen are part of the economy, just as much as the oil employees are. From the dock, the material is moved to a place of storage, and another $4 or $5,000 goes to the brokers and transportation people and is circulated into the Southern California economy.

The above figures do not include the 20 to $30,000 that goes into the U. S. Treasury as duty, but part of it goes to support the people who serve as customs brokers and other people in this activity. All these moneys are placed in the economy of Southern California.

In addition to that, is the profit that goes to the local agent or broker. The local broker of domestic steel makes a $15 per ton profit on the steel he sells. The balance of it returns to the steel mill or producer of the pipe. If the agent or jobber for the mill abroad makes half as much gross profit, the total dollars per ton go to the local economy and would still be greater than that produced by the purchase of domestic pipe. The residue goes to the mill abroad, whereas the residue from the domestic pipe goes back to Ohio, Pennsylvania, or some other state, because none of it is produced in California.

If it goes to Japan, that money is used in the over-all balance of trade to purchase planes, agricultural products, and equipment, as stated earlier. The same would apply if it went
back to Ohio, Pennsylvania or any other American state; but the
big difference is that the taxpayers of California would be sav-
ing approximately a million dollars. We don't believe the citi-
zens of California should subsidize steel mills a thousand miles
or more away. It has been estimated on the tonnage to be used
in four years, these savings would approximate one million dol-
lar per year. With the Governor's campaign at the present to
reduce the budget and secure as many economies as possible, we
cannot see the consistency in paying a million dollars a year to
go back east. We think the policy should be to secure these
economies.

There are two notable examples I should like to point
out: In 1959 the City of Los Angeles Department of Water and
Power issued a tender for two electric generators. Three Ameri-
can firms bid on these generators and each bid was approximately
$15½ million. The prices were not fixed, but were subject to
escalator clauses in the event of labor or material increased
costs. A Swiss firm bid $9,260,000. The savings to Los Angeles
was approximately $6 million on this one issue alone.

Then two years later the same tender was issued on two
generators; and, in spite of increased labor cost, labor and
material cost, they were able to reduce their bid to $10,259,000,
whereas the Swiss firm bid $8,000,000. The factor that is most
important in this case -- the threat of competition reduced the
American manufacturers' price some 30%, whereas without this com-
petition from abroad, they would have been secure in their high-
er prices.

A second example refers to the City of Pasadena. In
1962 they issued a tender for a transmission cable. Four firms
bid in various parts of the United States and yet every one was
exactly the same unit price, despite the difference in freight,
and so forth. A Japanese firm bid 11.2% below them. The City fathers of Pasadena had an open hearing and the domestic producers used the argument at that time that our boys in Korea would be unhappy if the City accepted the bid on the foreign product; but they did save that money and have been doing it ever since.

Therefore, it is our contention it is not only the dollar saving that is important on the individual bid, but it is the ability to keep American firms, particularly those where the suppliers are limited and the prices are posted, in line. I am not suggesting collusion -- I don't believe it exists; it may have years ago -- but it seems to be that where the prices are posted, they keep them there. However, if there is competition from abroad, if there is an outside bidder that doesn't repeat published prices, there is a tendency for them at all times to take a second look.

Thank you very much.

MR. FLOURNOY: Mr. Stitt is your last witness, and then we will move to the other side of the argument.

MR. STITT: Mr. Chairman and Commissioners, I realize you are becoming impatient at the time that has been spent here. I have provided Mr. Hortig with copies of my complete statement, therefore I am going to hold my time down to three minutes. I am a lawyer, though, and three minutes usually means five.

My name is Nelson Stitt. I am a carpetbagger because I am the Director of the U.S.-Japan Trade Council in Washington, D.C. I am here to represent the total trade interest of Japan. As you know, the pipe suppliers in the case of this Long Beach project have been predominantly Japanese. I have been reading in the California newspapers a number of charges about Japan. I had much in my statement and I don't want to
duplicate previous testimony, but I would like to deal with a few subjects which we have read in the press, that I think are totally unfounded, and I am hopeful that I may disabuse you of some of the notions you may have gotten from reading your daily newspapers.

The one thing that has considerably bothered me has been the suggestion that these foreign steel imports, including casings, are subsidized abroad; in other words, the lower prices have been occasioned by subsidies from foreign governments. I don't know anything about the European situation, but I do know about Japan. In the middle of last month I was back in Tokyo, and I took this up with both the highest officials of the government and leaders of the steel industry. I was unequivocally assured there is no subsidizing of the steel industry in Japan. The steel industry in Japan runs its own business and it is not run by government.

Then the question arises: How is it Japan can underbid on seamless tubing for this location? -- and they do, 15%. Very briefly, the reasons are these: First, the Japanese mills are located on deep water locations, where they can bring in their coking coal, which comes from Virginia. They bring it in from the United States most economically. Their iron ore comes in in big hundred thousand ton vessels and they can unload economically. Furthermore, when the steel process goes on, again they are in deep water, so they can load it right in an ocean vessel to Long Beach.

Therefore, I say the first reason that the Japanese can underbid the Americans is that they are very efficiently located geographically.

Secondly, their wages are lower, as we all know.

The third reason -- Japan has been very quick to pick
up the newer technology in steel production in furnaces. 63% of the steel in Japan is produced in the oxygen furnace; in the United States, 25%. The oxygen furnace can cut the cost of steel eight to ten dollars a ton. The domestic producers, I am sure, would verify this.

Second, or fourth, whatever it is -- I am making this up as I go along now -- the Japanese steel management is willing to accept a lower level of profit on dollar sales than is American steel management. Now, I make no accusations against the American steel industry, except this one -- that they do believe in a high level of profit on steel.

Finally -- and most important, I think, is the cost of the freight. As we all know, this seamless casing is made in the east. The most economic way of getting it to Long Beach, perhaps, would be from Pittsburgh by way of Baltimore, loaded on an intercoastal vessel around Panama, and to Long Beach. From Japan, it is from the docks at Yokohama, or wherever it is, straight to California. There is a saving here that could be fifteen or twenty dollars a ton just getting it to Long Beach. So my point is -- naturally, the Japanese can underbid the Americans.

Another accusation which you have read in the paper -- As an attorney, I have represented the Japanese steel industry in a number of dumping cases which have been brought before the Department of Interior. I can think of cases on steel wire rods, welded steel pipe, hot rolled sheets, cold rolled sheets, steel wire strands. Each case investigated by experts in the U. S. Department of the Treasury -- and they are experts; they are not dummies -- after careful investigation none of these complaints have been found to exist. Dumping, I might say, is not selling in the U. S. at a lower price than U. S. products; it
1 is selling in the United States at a lower price than at home; and they sell at the same price at home or even a lower price than they sell abroad.

With regard to the great talk of the increase of steel imports and how it is going to ruin our domestic steel industry, frankly I have been in the steel industry a number of years and I don't believe this. I think the U. S. steel industry, after about fifteen years of sleeping, is now in the process of investing over two billion dollars a year in new, modernized equipment. This goes all the way from benefication plants, improved high capacity blast furnaces, basic oxygen furnaces (which they are now continuing to adopt) and continuous castings. My feeling is imports are not their problem and I think many steel economists agree with me.

Future years are going to see a diminution of steel imports in the United States because finally U. S. steel industry is becoming aware of the fact that they have to become efficient. Why? -- because of competition from abroad.

So why should the great State of California protect them? Protection is the worst way in the world of making the U. S. steel industry efficient. Let's expose them to worthy competition. Let them get their prices down. They are getting their costs down -- why shouldn't their prices come down? I say they will.

All right. I said I'd take three minutes; I don't know what I have done. Let me just close. California is the number one trading state in this nation. Now, you folks ought to be proud of this our here. You are the number one trading state. You export and import more than any other state in the Union. In fact, you export and import more than most of the common market countries taken singly. Where does your future
lie? Does your future lie in improving your export trade and
import trade? I am just guessing that protectionism, if adopted
by this Commission in this particular instance -- and I am
representing the U.S.-Japan Trade Council and I speak intimately
for the people of Japan -- is going to be resented by the people
of Japan. They buy your rice; they buy your airplanes; they
buy your machinery. They're competitors and now you are not
going to buy their steel. I can't say, obviously, if you make
a decision adverse to our interest the trade is going to stop
between California and Japan; but you are building a core of
bad feeling which, in the long run, is going to work against
not only the interest of California but the national interest
of the whole United States.

So let me respectfully urge you gentlemen to continue
the open procurement policy and let competition take place.

GOV. FINCH: I am glad everybody didn't say they would
take three minutes.

MR. FLOURNOY: We will now proceed to the other side,
with Mr. Richard Bergen, attorney for an informal group of
domestic steel producers and suppliers.

MR. BERGEN: Mr. Chairman, we won't insist precisely
on equal time; but in all due honesty, to make our case I would
estimate it would take forty-five minutes. I will do the best
I can. I have been hacking away the best I could.

MR. FLOURNOY: Why don't we try to give you forty
minutes now and then we will adjourn until two and let each side
have ten minutes to sum up. I think this is the only way we can
give you a balanced presentation. Is there anybody that is
unduly inconvenienced by that? (No response) Then that will
be the procedure.

Can we get in here at two o'clock?
MR. HORTIG: We hope.

GOV. FINCH: If not, we will do it in the corridor.

MR. FLOURNOY: Proceed.

MR. BERGEN: My name is Richard C. Bergen, and I am a partner in the firm of O'Helveny & Myers, Los Angeles. We represent the California Oil Field Suppliers Association, whose members supply United States manufactured tubular goods to California oil fields. We will emphasize in our presentation what we regard as the two real issues -- namely, the economic effect upon the people of the State of California of buying domestic vs. foreign tubular goods for the Long Beach Unit operations; and, secondly, and possibly more important, the legal, managerial and governmental principles which should be applied by you to this situation.

Although the others have talked to you at length about world trade versus domestic trade, we do not believe this is the proper forum to decide the relative merits of these contentions. Extensive hearings have been and even now are being and will be conducted in Washington on this. You haven't the power to make a decision, and certainly this is not the proper forum to take the matter up.

This calendar item can be and should be disposed of on another ground -- namely, the long run economics involved and the legal, managerial and policy considerations inherent herein. Accordingly, except for a brief presentation at the end of our discussion, we will not treat this emotionally charged controversy as a real issue in this proceeding.

The first such issue is the aggregate economic effect upon the people of the State of California and the Long Beach operations of the decision to be made by you. You have before you in the record a report made by an outstanding firm, indi-
caring that the resolutions in question have resulted in an apparent saving of 12.68% in comparison to prices quoted for U. S. tubular goods. The report says no consideration was given to property taxes, domestic employment, and the many other non-price factors and services borne and furnished by domestic producers and suppliers. All economists agree that non-price factors have important and economic value and must be weighed against apparent savings predicated on a pure price differential.

We do not quarrel with the report as far as it goes. We say it does not go far enough. We have had prepared, and will submit to you, a report of an equally outstanding firm. When all these things are put on the scale, not put on a pure price differential, there are no savings at all.

This report was prepared under the supervision of Dr. John Van de Water, a management consultant and economist now of U.C.L.A., who will be our next witness. He will point out that the non-price services of domestic steel suppliers are of sufficient value, considered purely on the basis of economic considerations, to counterbalance pure price considerations; and a domestic purchasing policy is indicated.

Prior to Dr. Van de Water's presentation, I want to point out that the former State Lands Commission, which purported to decide this matter on the economics involved, itself recognized that non-price factors were very significant. Indeed, your predecessors recognized that non-price considerations -- and, in particular, the manufacturers' warranties provided by domestic producers and the superior testing and other procedures followed by such producers -- had sufficient value to counterbalance any pure price consideration on line pipe to be laid on the ocean floors.

In March 1965, the Lands Commission modified its
order on its policy for all line pipe and granted permission for
THUNS to limit bidding to U. S. manufacturers on submarine pipe-
lines. This illustrates that if pure economics are to be made
the only issue here, the decision would turn upon a judgment
factor, which necessarily cannot be precise, on how heavily to
weigh these non-price considerations against this pure price
differential.

The members of the former State Lands Commission obvi-
ously decided that these non-price considerations did counter-
balance the pure price differential with respect to pipe for
submarine pipelines, but did not counterbalance for other tubu-
lar goods. To put it another way, they held the non-price fac-
tors may counterbalance the pure price differential when pipe is
to be laid on the ocean floor, but not when pipe is to be in-
serted in a well and submerged beneath the ocean floor. This is
indeed an anomalous situation and evidence of the tenuous nature
in their analysis.

Before Dr. Van de Water gives you the economic reasons
why long run economics do favor the use of American-manufactured
domestic goods for pipelines, I want to point out how important
these things may be by referring to the recent taking over of
the Hilton Hotel in Tokyo by the Japanese. The financial section
of this Monday's Los Angeles Times pointed it up. Veteran re-
porter Richard Halloran pointed out that the Japanese have a
different attitude toward the sanctity of contracts. He speci-
fically stated:

"In Japanese business ethics, a contract or
agreement is considered valid only so long as
both parties want to continue it .... If the
conditions under which a contract was signed change,
then a Japanese businessman feels that it is proper
to renegotiate or to cancel the agreement without
further ado. Further, a contract in Japan is
generally observed only so long as both parties
have some kind of power to enforce it. If one
party has no power, it is considered cricket for
the other to do as he pleases."
and so forth. I cite this incident only to make evident how very important non-price considerations should be in establishing purchasing policies for the Long Beach Unit. Shutdowns or limited delays during the developmental stage of this field could cause a loss far in excess of the pure price differential that concerns everyone so much. The domestic producers can be prevailed upon to deliver their goods according to their contracts; and, in the event of shortage, they have a policy of prorating their supplies among their many purchasers. These rights are not available to purchasers of foreign steel, and I feel figures to be submitted shortly weigh strongly in our favor. I will leave to our economist in our case the rest of the matters involved.

I return now to one of the major issues in our calendar item, if not the controlling item -- namely, the legal, managerial and governmental principles that should be applied by you. To do this, I will have to touch on the legal situation briefly, but will try to limit it.

As you know, the City of Long Beach is the State's trustee in these tidelands and has approximately a 15% interest in the profits therefrom. Contrary to Mr. Kilpatrick's statement, this is a vital interest and a very significant interest to the City, that they are going to protect.

The City has hired as its contractors the various contractors constituting THUMS, which in turn have about a four and one half percent profit interest, which in turn makes them have a very significant interest in the operation.

This statute gives the State Lands Commission certain specific rights of approval on limited matters which were
regarded by the Legislature of major concern, such as oil and
gas sales contracts. The purchase of materials is not included
in the group of contracts which require your specific approval.
The statute states that all matters pertaining to the tideland
portion of the field are to be agreed upon by the City of Long
Beach and the State Lands Commission; and in the event of a
disagreement, the matter is to be decided by the courts. The
provisions in the statute are broad enough to cover purchasing
policies if the State and City so desire; and, in contemplation
of that, the statute provides for plans of development -- which
plans cover a period of time not more than one year.

The law does not give the State or the City the right
to order the other to do anything; but, rather, they must agree
on a formal plan, and this is specifically spelled out; or it
must be reviewed by the courts. It was not the intent of the
Legislature that the State Lands Commission act as a board of
directors, controlling the operation, or that the State Lands
Commission should act as the managing officers of such a company.

However, the members of the State Lands Commission
adopted this philosophy, and at their meeting in September 1965
adopted the resolution in question -- which contains an outright
order to the City and the foreign pipe producers. Although the City had requested your predecessors
to concur in the proposal or advise of any disagree-
ment, they responded with an outright order, sec forth in the
resolution before you. I will not take the time to read it be-
cause it is apparent on the face of it. It says: "Oil well
casing, tubing and line pipe requirements... are to be
purchased..." and lists the procedures.

This language was further modified March 11, 1966 --
which, as stated previously, permitted deviation from the
previous order for submarine pipelines. This modified resolution granted a permit for THUMS to limit bids to domestic pipe for pipe to be laid on the ocean floor in the Long Beach Harbor area. Instead of talking in terms of agreeing, disagreeing, or recommending, as provided by statute, your predecessors saw fit to make an order and then granted a deviation in the order in purchasing submarine pipelines. The fact is they had no authority to make this order and then the deviation.

I have taken time to state the law in this proceeding not only to point out your predecessors did not apply the statute in adopting the resolution now under consideration, but, even more important, to show these resolutions up for what they are -- namely, a startling example of the former members of the State Lands Commission implementing their philosophy as to the omnipotence of the State. Your predecessors not only asserted but insisted that they knew more about the policies and procedures that should be followed in an oil field than the City and THUMS.

Apparently, your predecessors presumed they had the full legal right and business expertise to order specific purchasing policies in this oil field, even though the procedures they ordered were and are contrary to the established procedure of all significant segments of the oil industry in California. These resolutions present a clear and dramatic example of the erroneous philosophy of the former administration in California of issuing orders to private businesses and municipalities. Moreover, such orders were contrary to applicable law, good economics, and the wishes of the persons or municipalities involved.

The former Commission, in adopting the resolution now reviewed by you, was wrong -- legally, economically and
philosophically. Should you affirm the order of your predeces-
sors, you should recognize that you are taking a major step and
probably an irreversible one toward assuming the responsibilities
of this oil field. If you affirm, the next facet you will be
asked to consider will be part "C" concerning the proper lead
time for these procedures. Although last year a lead time of
thirty days was suggested, the calendar today suggests ninety
days in advance of requirements. Although you have hired ex-
erts, an affirmation of this resolution would mean that you
will determine, and your staff, such matters as lead time and
other details in running this oil field.

If you are going to specify one purchasing procedure
for pipeline, what about other purchases? If you are to act as
a board of directors for this operation, then certainly you
should do it properly and develop the expertise and staff to do
it properly. If you perpetuate the management philosophy inher-
ent in this resolution, then it should be done consistently and
properly.

The endeavor of the State to operate other businesses
clearly shows that an affirmation of this resolution will cost
the people of the State of California more money than if the
pure price consideration was not counterbalanced by non-price
factors.

The next alternative was simply to rescind the reso-
lution. This alternative has been suggested, and it certainly
is called for simply by looking at the resolution and the subse-
quent resolution. It is apparent on its face that it has ex-
ceeded the legal power of the Commission. However, if you
simply rescind the resolution, you would not be necessarily
agreeing or disagreeing with the policy of THMS; and in this
plan they are entitled, under Chapter 133, to your answer.

I do not ask that you order domestic goods, since to
ask you to do so would be asking you to accept the same philosophy as your predecessors. I do ask that the City of Long Beach and THUMS are entitled to a concurrence in the recommendations before you and a rescission of the resolutions adopted by your predecessors. I trust your decision will be made clearly and emphatically, so it will be shown the State Lands Commission is running its affairs with due deference to the law, consistent with policies established in the oil industry. You can't solve the country's import-export problems, as that is not within your power, but you can and should rescind these resolutions.

I now give you as our next witness Dr. John Van de Water -- a lawyer and management consultant and presently Adjunct Professor with the Graduate School of Business Administration at U.C.L.A. I will hand the reporter a statement of his qualifications, rather than go into it all here. Dr. Van de Water will submit the considerations which we feel counterbalance any pure price differential. In addition, he has standing by Dr. Gerhard Rostvold, formerly a Professor of Economics at Pomona College, now a consulting economist and President of the Western Economics Association.

Is it all right now, Mr. Chairman, to go ahead with Dr. Van de Water?

MR. FLOURNOY: Yes. I think our plan would be to wind up this section of the proceedings in about ten minutes. We cannot reconvene in this room after one, but we will reconvene in room 4164 at two o'clock, at which time we will then allow about ten minutes for rebuttal on both sides and whatever other action the Commission wishes to take.

MR. BERGEN: If you will release Dr. Van de Water and Dr. Rostvold, within about five minutes I will close up.

MR. FLOURNOY: I will be happy to release them, if they will release us.
I might point out, while we are waiting, I think all members of the Commission have received a copy of this report and are familiar with it. Maybe that will help you to expedite your remarks.

DR. VAN de WATER: I must say I am grateful to be here and hear the conflict going on and whether we ought to return to local government and local determination in decisions of managerial concept, as they have been in the past. I might say as a director of management and as senior director of the consulting firm of John R. Van de Water Associates, that I personally espouse the principle that Ralph Cordiner, Chief Executive Officer of General Electric, suggested -- that where managerial decisions should be made in particular is on the delegation of authority at points where information is readily available and contacts can be made, and by allowance of this and delegation properly, it is serving as an aid in California government as it is in private industry in general.

Our research findings are in accord with the proper allowance of decision making by operating management in the area of tubular purchasing policy.

What I will do, gentlemen, is to briefly summarize the findings in this report -- not in detail. You will have before you the full report from Dr. Rostvold and Dr. Knapp.

First, domestic suppliers stand ready to supply a complete range of products and services essential to the efficient operation of the THUMS project.

Second, foreign operations stand ready to supply only the standardized seamless tubular items, leaving the other items to domestic suppliers.

Three, In addition to carrying a complete line for the THUMS producers, domestic suppliers have a complete range
of services, such as technical service, new product development,
shorter lead time, and so forth.

Four, the non-price services of domestic suppliers
carry an economic value to THUMS and the people of California
sufficient to offset the value of the differential between
domestic and foreign pipe prices.

Five, it is a fact that the THUMS producers could not
operate without the complete line of products and special ser-
ices provided by California-based suppliers and any significant
weakening of these domestic suppliers would handicap the long-
range efficiency of THUMS and any future operation like it.

Six, the California-based suppliers of domestic prod-
ucts have a more significant employment, income and tax revenue:
imating effect on the economy of California than the much
smaller suppliers of foreign tubular products. These macro-
economic effects must be weighed against the price differential
of foreign products over domestic products.

Seven, the multiple income generating effect in Cali-
fornia from the 6% profit on domestic pipe will range between
$7 million and $10.5 million, and the statistical evidence here
should be given careful consideration.

Eight, there are strong reasons for doubting the
stability and permanence of lower foreign steel prices; and
increased reliance on foreign firms increases future risks.

Nine, there are sufficient additional risks in buying
abroad to avoid heavy dependence on foreign sources. These
risks could severely hamper the operations of THUMS in the long
run.

Ten, after all the long range factors are weighed
against the pure price differential and the aggregate economic
effects on the California economy are considered, it is not true
that foreign products make for any long range gain for either
THUNS or for the California economy.

These are the conclusions of the Western Economics
Association of outstanding economists and of Dr. Gerhard Rostvold,
with the research assistance of Dr. Robert W. Knapp.

All these factors lead to the recommendation that the
business judgment of THUNS be allowed to prevail on the important
matter of purchasing policy. Business decisions in our free mar-
ket system are best made by those most expert, closest to the
project at hand, and with a vital interest in its success.

MR. FLOURNOY: Could I ask just a few questions here?
I hate to do this because I am violating my own problem on time.

DR. VAN de WATER: Dr. Rostvold, would you join me?

MR. FLOURNOY: First of all, may I ask -- This report
you prepared and the summary basically compares the non-price
economy effects of buying domestic with the price differential;
is that not right?

DR. VAN de WATER: Right.

MR. FLOURNOY: And does not, at the same time, intend
to offset or evaluate the non-price economic effects in connec-
tion with foreign-bought goods?

DR. VAN de WATER: That is true.

Any comment?

DR. ROSTVOLD: That's correct.

MR. FLOURNOY: You are not asserting that all these
domestic supplier activities are going to cease if somehow we
don't buy the tubular casing from them?

DR. VAN de WATER: That is true. I might say that the
key point is with all the complexity involved with local decisions
like this, rather than your taking your time to make decisions
on these, delegation of authority is a sound policy.
DR. ROSTVOLD: This study attempted to look at the
problem within the context of the total operation of the THUMS
field; and, actually, in looking at the total operation one has
to be highly cognizant of the efficiency aspects and the economic
value of maintaining a schedule. So we attempted to place on
the scale the non-price factors within the context of ongoing
operation which is efficiently run and scheduled to its greatest
economic value. So that is sort of the background.

MR. BERGEN: Now, I want to make one further point
concerning the economic situation. Although we believe the over-
riding economic situation just discussed would justify ruling in
our favor alone, we submit that considering the recommendation
of THUMS, as I said in our favor and with the deference due them,
and particularly if you view that with the legal, managerial and
philosophical features espoused by us as being applicable, it is
only necessary for you to decide that economic considerations do
not compel any other decision. I think, in fact, we are right
but I think in the long run the interest of the people of the
State of California is affected by the managerial philosophy you
apply to this situation.

I would now like to introduce Mr. Lee
Peake, Manager of Sales, Kaiser Steel Corporation, who will dis-
cuss the import-export situation.

As I said previously, we don't feel the import-export
policy is an issue here, but since a great deal has gone in the
record about it, we think a brief statement about it is in order.

MR. PEAKE: Good afternoon, gentlemen. I will also
abbreviate my comments here.

My name is Lee Peake. I am Manager of Sales, Kaiser
Steel Corporation, with offices in Oakland. If time were not
such a factor, I would comment on Kaiser Steel's position in
international trade. We are very definitely in it. I would also take time to comment on some of the statements and inferences that Mr. Stitt made, a couple of which I think are inaccurate; but neither of these issues are pertinent today, so I will not discuss them.

Our company does not manufacture oil casing and tubing, the principal items being purchased by THUNS. We feel justified in asking for a few minutes to testify because the procurement policy of the State Lands Commission is important to the entire domestic steel industry.

The steel industry is an important sector of the California economy. In California steel industry we are the largest producer, largest employer, and generate the greatest tax revenue to the State. Beyond that, we have further meaningful potential for investment in California. Furthermore, what is important to us in this issue is important to the State as a whole, even though we don't make these particular items. The importance of the procurement policy of THUNS relates to what is involved in principle.

The principle at stake is whether a private agency, working in this case in behalf of the City and State, should be able to exercise its own judgments. I refer here to decisions based on analysis of values received, rather than short range considerations -- short range consideration of prices.

We are faced throughout the country with the hard fact that it is increasingly difficult for us to hold our own in our own domestic markets. As we all know, our foreign competitors have much lower labor costs relating to their lower standards of living. This is only the beginning. Tariff structures here and abroad are inequitable to American producers.

More important, steel industries overseas are
subsidized, either directly or indirectly, particularly to encourage these industries to expand for export. The objective of these governments is to utilize steel as an instrument of international policy.

Here is what we face in California. Foreign steel imports have more than trebled from less than half a million tons in 1962 to almost a million and a half in 1966. This million and a half would represent jobs for 9500 steel workers, plus many other jobs in supporting industries. It represents the output of a company almost as big as our own -- a company which has paid State income tax and property tax alone of $13 million in the two years, '65 and '66; and during this period our payroll in California was in excess of $200 million.

Now, the steadily increasing penetration of foreign steel imports has brought about deep concern to the officials of our company. This concerns not only our replacement investment but potential investment. This has already caused us to delay decisions on future investment. Steel labor costs would be one thing, but with these other factors included we find ourselves in the situation we described.

To conclude, we now refer to the State Lands Commission resolution affecting the procurement policy of THUMS. We feel that the welfare of our State and the United States is certainly not best served by the current policy. The current policy advances the primary criterion in terms of price alone and prevents domestic industry from bidding on the long term basis of value. It prevents expansion in the years ahead.

We, therefore, respectfully urge that the resolution of the former State Lands Commission be revoked and THUMS and the City be permitted to purchase in accordance with their own wishes.
MR. FLOURNOY: May I ask one question? You brought out a difference between long range and short range value. I am not sure what that related to.

MR. PEAKE: As far as THUMS are concerned, I think the answers are laid out specifically in the report that Dr. Van de Water has prepared, in which he goes into all these non-price factors. The health of the steel industry in California is something that is aside from that and we are not asking to be favored. We are not asking for protection. We are just asking for a right to compete, so we can sell in terms of these less specific things than price. If we are able to do this, in the final analysis it is in the hands of the sales people of the domestic people to sell the accounts.

MR. BERGEN: Mr. Chairman, I'll wind up with just a very brief summary.

MR. FLOURNOY: We appreciate that and we will have an opportunity for ten minutes on each side in room 4164.

MR. BERGEN: I'd just like to say very briefly that besides the economic case I feel we have made -- and I continue to emphasize this, because I feel it strongly -- it is very important in this case, here and now, for you to establish proper management procedures for this field. In my judgment, your predecessors did not follow the law. They did not follow good management principles. They did not give due deference to their operators, to their municipalities.

Any affirmation of these resolutions would necessarily involve you in perpetuating these principles and they were wrong legally; they were wrong economically; they were wrong philosophically.

As I said, I prefer you go further than revoking these resolutions, as I think everyone is entitled to the answer.
Sooner or later, you are going to have to give it. You have been through this procedure; you have had a chance to analyze this thing. I see no point in postponing it and later have a hassle over a plan. Your position should be made clear one way or the other.

To summarize, if you do rescind these resolutions and concur in the request of THUMS and the City of Long Beach, in my judgment you will be assuring the people and everyone concerned that your Commissioner as now constituted is going to follow the announced policy of our Governor -- namely, and I quote:

"... define broad objectives, not to form blueprints which localities must adopt in detail."

Thank you.

MR. FLOURNOY: Thank you, and we will recess until two o'clock in 4154.

ADJOURNED 12:20 P.M.
MR. FLOURNOY: The Commission will come back to
order -- and where were we?

MR. HORTIG: Rebuttal time.

MR. FLOURNOY: We are at the time we have set for
ten minutes on each side to rebut and I suppose the rebuttal
should be in the same order as the original presentation, so
we will revert back to Mr. Comperes for ten minutes on the side
in favor of open competitive bidding, if you wish to sum up and
rebut.

MR. COMPERES: Mr. Stitt is going to take care of the
rebuttal, gentlemen.

MR. FLOURNOY: As everybody was forewarned they would
have ten minutes, I suspect we will keep a closer watch on the
clock.

MR. HORTIG: Mr. Chairman, it might also be well to
announce, since there is no public address system in this room,
will you please speak up?

MR. STITT: Mr. Hortig, I have a loud voice and I can
fill this room and some. Gentlemen, I am some what of a master
of ceremonies.

In rebuttal on the side of those who believe in open
competition in procurement of pipe casing for the Wilmington
oil field, my own contribution will be kind of brief. I am go-
going to raise a few points. I am going to call upon Mr.
Kilpatrick to comment on some of the legal questions that have
arisen and call on Dr. Rooney to go into some of the economic
problems.

My testimony at this stage is going to be largely a
matter of questions. We have heard so much about the THUMS Long
Beach Company and the City of Long Beach for some reason or another wishing to have a restrictive bidding policy. Why is not a representative of either the company or the City, or both, here to tell us why they believe they should pay more money for casing than they are already paying? They are not here. We have heard from the opposition that they believe in a restrictive bidding policy, but the fact remains that they are not here to testify and give us their reasons why they think it should be so much better.

Now, the second point I'd like to raise is this business of the sanctity of contracts in Japan. I went into Japan in 1945 in the Air Corps, they called it in those days. I was there five years. I have been in business with Japanese since 1953 as an attorney. I have had many contracts with Japanese and I must say in my own experience I have found them to be nothing but people of their word; and in no contract in my experience -- and I have had many -- has there been any problem of sanctity; misunderstandings, yes, just as with the Hilton. We are not going to go into that, but I dislike the idea that the impression has been raised here that the Japanese do not meet their contracts. They do -- frequently more religiously than some of the American clients I have.

There has been talk about warranties and the fact that if THURS were to procure casings from a supplier of Japanese pipe that some way or another, if the pipe is defective or for some other reason there might be a claim, they would have difficulty reaching the Japanese manufacturer. The truth is they don't have to reach the Japanese manufacturer. The suppliers here are American corporations, who have over the past year and a half supplied performance bonds and in the event there is something wrong -- that they didn't deliver on
time or the pipe was defective -- the bond was there. In fact, it has reached the point that THUMS no longer requires a performance bond because their performance has been excellent and there is no need for a performance bond. So all this talk about reaching the foreign supplier is a misstatement to me.

Now, there has been a question raised about the fluctuation of world steel prices and the fact that you can't depend upon a world price, and the truth is you can't. Outside the United States the steel market is a competitive market and prices go up and down with demand -- sure they do; and if we have a big strike here and there is a big shortage of supplies, by the force of supply and demand the price is going to go up. However, we are talking about competitive bidding practices -- where, if the foreign prices go up and the domestic prices do not go up, the domestic man gets the bid. There is no question -- I don't get the matter of stability of prices. If world prices go down and the casing becomes available to THUMS at a lower level than the domestic, why shouldn't we use it? If the prices go up, the situation is different. We are talking about the open competitive system of bidding and that's all we are pleading for.

My last point, and then I am going to give you Mr. Kilpatrick to deal with the legal argument: California is the leading foreign trade state of this nation and is very proud of that fact; at least, it has been in the past. This is the question: Does California want to continue to be the leading exporting state of the United States and, at the same time, be the most notorious state from the standpoint of restrictive policies on imports into the state? Gentlemen, I think this decision is yours.

Let me give you Mr. Kilpatrick. Thank you.
MR. KILPATRICK: Gentlemen, I want to address myself solely to the question of the interpretation of the contract under which you operate. As I listened to counsel for this little informal group of domestic steel producers and suppliers, I had an impression that we were looking at two different statutes. If you think there is any substantial merit to the interpretation of the statute given by counsel for that group, which is so divergent from the interpretation we have given you, you should in the exercise of your duty call on the Attorney General to give you briefs on this point and ask both sides to give you briefs on the law.

I am confident -- and I am sure we would be happy to show it -- we are confident the former Commission did not impose upon its authority. The statute says the plans shall specify all matters necessary and desirable for the oil and gas operations and standards "as hereinafter provided" and goes on to say that this shall be done by the City making up a plan and submitting it to the Commission. This plan shall, among other things, call for the maximum economic recovery from the tidelands. When that plan is submitted to the Commission, the Commission has forty-five days in which to object to it; if it doesn't object, it becomes law -- but if it does object, it has the power, and I quote from the statute: "If the Commission believes that a modification of the plan is necessary, it shall conduct a formal hearing. At such hearing the City may present evidence in support of the plan. After the hearing, the Commission may order modification of the plan in any respect," if it finds it necessary to promote the maximum recovery of oil and gas.

Counsel suggested that you had no power to issue orders. There is the power in the statute. Now, you cannot
abdicate this authority by saying this is an operational detail. It seemed to me Mr. Van de Water reduced that to absurdity when he said to you -- "You people shouldn't be bothered with these details." This is the first time I heard anybody calling an operational matter of $6 million an operational detail. As an analogy, suppose you were a general director and the manager of a lifetime contract comes to you and says, "I want to buy pipe but you shouldn't be bothered with a $6 million operational detail" and you shouldn't be bothered.

I say that no company would delegate authority of that kind to someone who has no financial interest in the matter and the fact is, as I pointed out this morning and which has not really been contradicted, THUMS has no financial interest; the City has no financial interest, either. Zach has a percentage of the royalty, but that percentage is going to go over the maximum they can receive under the law.

The upshot of it is that there is only one agency that has the right to represent and the interest to represent the people. You have the power to make orders in this case and it is your duty to make orders.

One more thing -- not an argument from me, but an introduction to our closing speaker, who will be Professor Robert Rooney, Assistant Professor of Economics, University of California of Los Angeles. He is a specialist in petroleum and mining economics and economics of industrial regulation; has been consultant to Continental Oil Company and Tidewater Oil Company for the past three years. He and Professor William R. Allen, who is presently Professor of Economics, U.C.L.A. School of Economics, have prepared an argument for your analysis of everything we have heard in the newspapers and the economic points presented by the opposition; and I call on him to submit his report to you in writing and summarize it for you as briefly as possible this afternoon.
PROF. ROONEY: Here is the report prepared by Mr. Allen and I. Let me say, Mr. Chairman, that the direct savings to the State of California from requiring the THUMS group to purchase its seamless requirements from the lowest bidder are to amount to some $7 million over the next five to ten years. If THUMS is allowed to expand all field development costs, including the cost of seamless tubing, the State would bear 100% of the expense of domestic seamless tubing. Of course, THUMS receives 3% profit, being the 3% allowance they have as their cost-plus.

Now, in effect, the higher cost of domestic seamless tubing would amount to the fact that the State Treasury subsidizes the domestic producers and distributors of seamless casings to the amount of $7 million; and if the domestic producers and distributors are so deserving of the subsidy, it seems to me and to Professor Allen that a more forthright way to subsidize them would be to draw checks on the State Treasury and allow open competitive bidding.

The distributors of domestic pipe argue if they receive the seamless tubing business of THUMS income and taxes would be higher in California than if the income goes to distributors of imported pipe. Their argument is that distributors of domestic pipe receive more commissions, and so forth, than imported pipe distributors. Even if, contrary to actual fact, no commissions were paid to distributors of domestic pipe, the domestic pipe distributors' argument is faulty because it ignores the income and employment effects of higher revenues received from the THUMS project. The cost savings from the use of foreign seamless tubing will amount to higher revenues being received by the State. These higher revenues received by the State may be used to increase the State's expenditures if that
is desired, or to cut taxes -- the direct benefits of such higher expenditures on the part of the State or tax reductions accrue to all citizens of the State, and not simply allowing the domestic distributors to charge higher prices for steel. They do not accrue primarily to the domestic distributors if the State has a cost savings.

The higher revenues to the State from requiring THUMS to purchase foreign or imported pipe far more than offset any benefit to the economy of the State of California than the 6% commission received by the domestic producers.

To put the point in still another way, the East Wilmington field should be developed for the benefit of all citizens of the State of California and not the distributors of domestic pipe. The State cannot withdraw from its responsibility to all citizens and allow the THUMS group to accept the lowest bid for domestic seamless tubing on the grounds that THUMS, bearing none of the higher cost of domestic seamless tubing, can hardly be expected to act in the most rational manner from the State's standpoint.

The individual THUMS companies are large producers of crude oil elsewhere in California and in the United States. If the THUMS companies believe it is in their private interest in terms of their over-all position in the crude oil industry to subsidize the domestic distributors of seamless tubing at no cost to THUMS themselves, THUMS will naturally support limiting the bidding to domestic distributors. Thus, the State cannot depend upon THUMS to buy from the lowest bidder.

Furthermore the City of Long Beach does not have a strong incentive to oppose THUMS in their attempt to eliminate price competition from imported pipe. For one thing, the City shares half of the advance royalties from the THUMS group; hence
the City has no pressing need to get the THUMS operation in the black. Furthermore, although the City will receive a percentage of the THUMS project, only up to $250 million will be paid to the City. Now, total profits from this field are expected to reach as high as $1.6 billion, hence the City is certain of receiving its full $250 million in profit share, even if THUMS' costs are several million dollars higher than anticipated.

Clearly, the State cannot rely upon the City of Long Beach to look after the State's best interests. Hence the State must retain control over the purchasing policy or there is a high probability that the citizens of the State and taxpayers will have a loss.

I present this report by Professor Allen and myself that examines every aspect of the service, releases by the California Manufacturers Association, newspaper stories where the domestic distributors and the domestic producers of steel were interviewed. Let me state unequivocally that we were unable to find any basis to conclude that there are significant non-price factors that could lead the State Lands Commission to adopt domestic pipe at significantly higher prices than imported pipe.

For example, the technical and service personnel of the distributors of domestic steel are primarily salesmen, who exist purely because the domestic industry has abandoned price competition in favor of generally non-price competition; and, gentlemen, this is a highly documented fact. I refer you to our paper for the details.

Allow me to spend a minute summarizing.

MR. FLOURNOY: About what?

PROF. ROONEY: One, the State Lands Commission should continue to require the THUMS group to call for open competitive
Two, the State cannot expect either the City of Long Beach or the THUMS group to purchase pipe so as to maximize the State's revenue on the THUMS project. This conflict with the State on one hand and the City and THUMS on the other results from the way in which revenues are shared. The State's interests must be protected by the State itself.

Three, the alleged benefits to the State of the technical and other services provided by the distributors of domestic pipe are highly nebulous. These distributors generally duplicate the work of the THUMS engineering staff in the nature of non-price factors.

Four, the distributors of imported pipe are fully capable of providing whatever technical services are required by THUMS, since the distributors of imported pipe use the same independent service companies as are used by THUMS and the domestic pipe distributors. They all refer to the same consultants when real technical problems arise.

MR. FLOURNOY: Thank you very much.

We will, then, move on to the rebuttal on the other side.

DR. VAN de WATER: Well, Mr. Chairman, I am most amazed with the ten minutes taken by the other side for their response. My understanding was that we were to come here to respond to the statements made by the other side this morning. I have, therefore, released Dr. Rostvold to go back to Los Angeles to take care of his obligations there; and the material that has been given here will require a written response.

MR. FLOURNOY: Would it be in order to release the information provided by the last individual since it was on the understanding that they would rebut on the information given
earlier today?

VOICE: Sir, we had no access to the material presented today. We asked for the paper presented by the other side and were told it was not a public record.

DR. VAN de WATER: Mr. Chairman, we were simply told it would be rebuttal to the statements made this morning. I don't think this report was made between the time we heard their testimony this morning and now.

MR. KILPATRICK: May I make one suggestion? My suggestion is that this Commission should have everything before it that could be of any help to it. A short answer to Dr. Van de Water -- He should be allowed to report to you in rebuttal on what we have presented, but there was no way we could rebut anything we hadn't heard.

DR. VAN de WATER: Mr. Chairman, could I respond to that? -- that the presentations were given this morning and Dr. Rostvold would not have been released to Southern California if we knew these arguments would be received this afternoon.

MR. FLOURNOY: I appreciate that problem and I am not about to get in the middle of an argument on good faith, bad faith, or surprise. I think, as a Lands Commission, we are concerned about getting the facts in the matter on which to base a decision, and if there is a problem that has arisen by this unanticipated development as far as your case before this Commission is concerned, I think you will have ample opportunity to produce what you wish.

I think you appreciate the Commission has not been able to read this report in full and we are not about to prejudice anybody, wittingly or unwittingly. I think what we should do is that you be given a copy of the report and we have an answer from you as to the material presented, so we can study
both reports. I think, in all likelihood, this may necessitate
that we continue this matter until we have that information and
any other information the members of the Commission may stipu-
late they wish to have before we make a decision on this matter.

Let me repeat -- there is no intent on the part of
any member of this Commission to get anything but the best
thinking and best analysis of the problem before us prior to
the time we come to a decision. So if you will continue in
that vein, we will make available to you a copy and we will
discuss afterwards when it is reasonable for us to continue
this matter.

DR. VAN de WATER: Let me respond, Mr. Chairman, on
the points that seem to me to be directly on the economy discus-

Mr. Chairman, we did consider the point which you
raised toward the end of the discussion this morning -- the
non-price factors that might favor the other group, and the
reason for making no mention of such a factor in our report is
that the effect is minimal. Let me explain this. The importer
representatives here involved are Union Pipe, to our knowledge
with 2½ California employees. That means the gentleman who
gave the presentation, a secretary, and a part-time secretary.
Pipe Sales, we understand, has three or four employees. There-
fore, it is our understanding that these importers, plus Apex
with no California employees, virtually the only relevant im-
porter suppliers, have a total of no more than 4½ California
employees. Now, if we are 100% off of what our understanding
is, it would still be only thirteen employees.

It is true Mr. Perrish stated this morning that he
has thirty-four employees, but Mr. Perrish does not sell pipe.

The average California employment of the eight
domestic suppliers is 116. The importer representatives pay no
known real estate taxes and also they pay no personal property
taxes because of original package shipping.

The importer representative spoke of harbor fees, but
these go to the Port of Long Beach and Long Beach is concerned
alone in the weight to be given such an income item.

As to the domestic suppliers -- railroad and truck
shipping within California produce income spent and repented in
California for California employees.

Therefore, the economic report, as presented this
morning, still stands. Namely, after all, non-price competitive
factors are weighed against pure price differential; and when
the aggregate economic facts of the California economy are con-
sidered, it is not true that the lower foreign prices offer any
long range gain, either for the THIMS operation or the Cali-
ifornia economy.

Obviously, our need in California is not to take into
account the issue of a claim of a $6 million item. Coming be-
fore you gentlemen for consideration is a difference of $6 mil-
lion. This is not the situation, as we have determined it by
careful research. Our need in California, therefore, is to
apply sound and usual managerial principles, involving appro-
priate delegation of authority. This spirit is found in
Governor Reagan's report of March 15, 1967, in which he states:

"The role of the State is to define broad objec-
tives -- not to form blueprints which localities
must adopt in detail. The State should perform
those functions for which it is unquestionably
best suited as a governmental unit; but it should
not interfere with activities that can best be
done either by local government or by private
enterprise."

This is the statement of your Governor of California.

I would state that this is completely consistent with
the suggestion made this morning. When a plan is adopted, when policies which are guides to thinking are established, when appropriate procedures are considered, then senior manage-
ment leaves it to delegated authority in their proper realms; and in this way we can assure greater efficiency and not the enormous amount of cost of extra personnel having to be called in to make investigations and study for the Commission itself in place of the decisions made by delegated authority and where prompt action can be taken.

MR. BERGEN: Gentlemen, the statement has been made that neither the City nor THUMS has any financial interest in this operation. The City of Long Beach owns in its own right land that is in the uplands. They expect to have some $10 million out of it. Although there are these fixed payments, it is an oil field and their sum may not get to that. They don't know this for sure. Anything can happen. This is in the preliminary development stage and you know lots of things can happen, even in a fine field like this. Moreover, as their top limit is $250 million, they have a very vital inter-
est in this field. They have a definite prospect of running a good, sound operation. Moreover, they are your trustee. They are obligated by law to behave as a trustee, and I might say they have acted very, very well in your interests through the years. The City of Long Beach has done a fine job for the State. They deserve your trust and they do have your financial interest at heart.

On THUMS -- they just cast them aside, when they have a 41% profit interest in the tidelands portion of this tract and it is estimated that is $100 million. They are not about to throw that down the drain. You are tied in, fortu-
nately, with people who have the long range economic interest
of this field at heart.

It has been charged that the steel companies collude. We have good anti-trust laws in this country and have vigorous enforcement -- and I think the suggestion is highly improper.

They talk about maximum economic recovery -- and I think Mr. Kilpatrick's expression was 'from drilling.' Actually, it is maximum economic recovery of oil and gas. It is a waste concept. You are to get the most out of the ground and not waste it. In fact, there was a ruling in perhaps '54 by then Attorney General Brown that this language had reference to conservation. It did not have reference to getting into the cost of doing business. This language in the statute has reference only to conservation matters, to preventing waste and getting the most oil out of the ground.

They say it is part of a plan. In fact, this order is an anomaly. It is not part of a plan. In the '67 plan, in none of them, is this order in question included. It is a complete anomaly, in which the State Lands Commission decided they were not going to let the City and THUMS know how to operate an oil field and they took it upon themselves. In my judgment it is quite clear. I will submit briefs if desired, but I am perfectly willing to rely upon the opinions of your Attorney General. There is no question about this. It is on the record; it is a fact; the law is clear.

It has been asserted that these companies in their own operations buy foreign pipe. Sure, they buy some pipe and abroad they buy a great deal of it; but it is their policy in domestic oil operations to buy domestic pipe. There are exceptions -- but it is their policy to do this. There are good business reasons for doing this. They are not throwing their money away. They can't survive without all the services and
products the steel industry gives them; and the State of Cali-
ifornia shouldn't in an operation of this nature be an exception
to established business procedures. Already the foreign pur-
chasing policy is starting to have an effect on this operation.
You have $675,000 worth of inventory. They say, "Oh, this is
unique. We can get that down," but the fact is you run an
operation like this dependent upon foreign supplies, you are
going to have inventory; you are going to have problems. If
you want to do it that way, face up to the fact you are going
to pay the price. Some day you may be shut down. You take
your choice.

I am authorized to say one producer figures his cost
of inventory at 15.6% more than the total price here. These
companies are getting big service essential to them also from
the steel companies. They should recognize it and they should
appreciate it.

Finally, I will say in summary that we feel very
strongly that the economics favor domestic industry. Considered
long range -- we have had it analyzed very thoroughly, very com-
petently -- we can very seriously say that economically this is
what the City and THUMS should do with your concurrence. Cer-
tainly, you shouldn't order them to do anything.

We aren't asking you to order domestic purchases.
You have got a good contractor; you have a good trustee; you
have a good unit operator -- and let them run this oil field
the way it should be run.

GOV. FINCH: I'd like to ask Mr. Bergen and Mr.
Kilpatrick if they feel within a period of two weeks they could
provide us with briefs. I, for one, without trying to restrict
the scope of the briefs, have about three areas of critical
concern and the issues seem to be joined in the real
performance level or interest level of the City of Long Beach and THUMS. There seems to be a clear-cut conflict there. I haven't seen evidence that satisfies me one way or the other. I think there is a question as to whether THUMS has performed satisfactorily.

I would like a new brief from the Attorney General, updating the Brown opinion, and I would like the members of the THUMS consortium to go as far as they choose to go, indicating what their interests are in Japan particularly and other countries in the Pacific basin, going to the question of whether or not they will necessarily -- though they are acting in their own self interest, which presumably they are -- if they were given the right, turn to domestic suppliers.

I don't want to hear, as far as I am concerned, anything more about the Japanese business practices. I think that is irrelevant.

I am satisfied about the dollar question, but these are the areas I am concerned with. I am not trying to lay down the scope of the brief; but I, for one, would like to see these before the next meeting and I'd like to have enough time so we can thoroughly satisfy ourselves in these matters.

Is two weeks or eighteen or twenty days a sufficient time to meet these questions?

MR. KILPATRICK: If you will give us twenty days, we would like it; but we will meet whatever time you suggest.

MR. SMITH: I have one question that may be resolved before the next time we meet. If that resolution was passed with the understanding that pipe and other products would be purchased from Japan, because they had a lower price and it resulted in a greater net profit on the part of THUMS and therefore resulted in a great return to the State -- if that
resolution were rescinded -- what other controls or yardsticks
in a broader sense could be exercised by the State Lands Divi-
sion, so that we would be able to determine in the Commission
whether or not the State is receiving maximum return on the
economic use and development of its products?

In other words, if this resolution dealt with a de-
tail of purchasing and had an impact on profit, it is obvious
that many other resolutions could be developed in many other
areas of supplies and equipment. It could even get into sala-
ries and even into an encroachment on THUMS as a free enterprise.

Since that does not seem desirable in a free enter-
prise system, what yard sticks can the State Lands Commission
and the State of California use to measure performance on the
part of THUMS, so that the State will receive maximum return?

MR. HORTIG: I believe, Mr. Chairman, if I may respond,
I think this should be a report on this subject to the Commis-
sion. Answering Mr. Smith's question should be the responsi-
ability of the State Lands Division and the Attorney General's
Office. So we would submit such a report for your review, con-
currently with the briefs that you are to receive.

MR. SMITH: The reason I asked that question is be-
cause we are confronted with making a decision either to con-
tinue the resolution or to rescind it or change it; and a great
deal of it revolves around one point, and that is the return
that the State of California is receiving on the economic devel-
opment of its property. Consequently, with these alternatives
in the decision that the Commission must make, if the resolu-
tion were rescinded and that resolution did have an impact on
that profit, what are our yardsticks of measurement? What is
our control; what can we do; what could replace it, or should
it be replaced at all?
MR. FLOURNOY: I think that would be worth while.

On the question of timing, after making a check on
the calendar, I wonder if we could have these reports in our
hands by the 15th of May? That's Monday. It's close to twenty
days, but it gives us ten days before the next meeting, schedul-
ed on the 25th of May, to have it in our hands.

I'd like to go again into the third point that you
want, so we clearly understand what information Mr. Bergen and
Mr. Kilpatrick are going to address themselves to in this
regard.

GOV. FINCH: I don't want to put it into an inter-
rogatory.

MR. SMITH: There was one point that should be
clarified for the next meeting, and that is -- it has been
said that the THUIS company made the decision to purchase this
pipe domestically since it didn't have too much of a bearing
insofar as their participation is concerned, and the City of
Long Beach came -- making it sound as though purchasing
domestic pipe would not be a normal practice of a petroleum
company. I think Mr. Bergen indicated that was not true and
that purchasing domestic pipe is a normal practice. I wonder
if there is any way we could get specific information on that.

MR. FLOURNOY: I think maybe our staff could produce
that information without too much difficulty.

MR. SMITH: Yes -- regarding the normal practice of
a petroleum company or companies.

MR. FLOURNOY: And your three points, basically,
were which?

GOV. FINCH: I take it we will ask from the Attorney
General the legal role of the Commission.

MR. ABBOTT: You will get it in twenty days.
GOV. FINCH: I am deeply troubled by the question of incentive on the part of THUIS and the City of Long Beach with regard to performance, which is a question between the two of you. I am not satisfied either way on that issue. I think there is some question about it. We have given a sort of independent contractor's status to THUIS. Maybe we need some information as to their performance to date.

MR. KILPATRICK: Mr. Finch, could I make one suggestion at that point? The calendar indicates the Commission has been using the services of DeGolyer & MacNaughton as consultants. They could give you from the economic point of view, I think -- I am guessing -- but I think they could give you an excellent answer as to the position of THUIS and the City as far as the responsibility of costs are concerned; that is, whether increase in costs affects them.

GOV. FINCH: Then, as I say, it seems to me I just can't assume that it is going against the best interests, self interests of all these companies and the consortium, if they were not faced with the competitive bid situation, in view of their interests abroad, to in many cases go abroad for this pipe. Now, they all have a good many interests, particularly in Japan -- at least several of them to my certain knowledge -- and I think I'd like to see some more evidence on that matter.

MR. FLOURNOY: From them?

GOV. FINCH: Yes. Those are three things -- and anything else they want to bring up.

MR. FLOURNOY: Do you want to direct that to these individuals or to the members of THUIS directly?

GOV. FINCH: No -- to these individuals. I think that covers it.

MR. FLOURNOY: Is there anything else that we would
like to have as a part of our burgeoning record prior to the next meeting?

MR. HORTIG: Mr. Chairman, there was the discussion of making a copy of the report available that was presented in rebuttal this afternoon.

MR. FLOURNOY: Yes. Well, we are going to make that and I would hope you would comply, if possible, with the same kind of deadline -- the 15th of May.

MR. HORTIG: Might there also be the counterpart -- that a copy of Dr. Van de Water's report be made available?

MR. FLOURNOY: Sure.

GOV. FINCH: All of these are public records.

MR. FLOURNOY: Aren't they matters of public record?

MR. HORTIG: They are in various classifications.

GOV. FINCH: Can't we stipulate that everything that has been introduced today is a matter of public record?

MR. HORTIG: We can.

DR. VAN de WATER: Mr. Chairman, I cannot speak for Dr. Rostvold and Dr. Knapp in terms of the time, but I will immediately contact them.

MR. FLOURNOY: If there is any problem, let us know.

What I said -- I thought it was all settled that they would get a copy, and I want a copy, and vice versa.

Anything else?

GOV. FINCH: I think I should speak for the Commission by saying that we came here today prepared to vote. I think due to the solidity of the cases presented, at least my mind has been resolved on one or two points, and unless there should be anything extraordinary we want to get this matter disposed of; and I suggest that it would be the first item on the next meeting, Mr. Hortig, and let's get it out of the way then.
MR. FLOURNOY: I would further advise it would not be our intention at the next meeting to hear witnesses. When we get the material we have asked for, I think we will have an opportunity to get together and in our own minds will have given this thought before the Commission meeting. We may have a statement to make individually or collectively, and will then proceed to act in some way.

Let me further say, certainly speaking for myself and I am sure for the other members of the Commission, we appreciate the time and attention that has been given to this problem by the various people who have come to testify before us. I think it has been an enlightening session for me and I wish to express my thanks to those who have come here to assist the deliberations of the Commission in this matter.

I understand the only other matter on the agenda is the next meeting, which we have set for the 25th of May, which I assume will be someplace around here, and due notification will be given.

With that, the meeting is adjourned.

ADJOURNED 2:55 P.M.

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