

27. CITY OF LONG BEACH AND THUMS LONG BEACH COMPANY PROPOSAL FOR RESTRICTIVE PURCHASES OF OIL WELL TUBULAR PRODUCTS - W.O. 5200.309.2 AND W.O. 5200.206.

After consideration of Calendar Item 25 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

OIL WELL CASING, TUBING, AND LINE PIPE REQUIREMENTS FOR THE LONG BEACH UNIT DEVELOPMENT PROGRAM ARE TO BE PURCHASED UNDER A PROCEDURE SPECIFYING:

- A. OPEN COMPETITIVE BID BY ALL SUPPLIERS;
- B. AWARD OF BID TO LOWEST RESPONSIBLE BIDDER;
- C. BIDS TO BE RECEIVED ON AN INCREMENT OR INCREMENTS OF REQUIREMENTS FOR A TOTAL OF NOT MORE THAN THOSE REQUIRED FOR THE ANTICIPATED ANNUAL DEVELOPMENT, BUT WITH THE UNDERSTANDING THAT PURCHASES WILL BE DIVIDED INTO INCREMENTS OF SUFFICIENT SIZE TO PRODUCE AN OBJECTIVE EVALUATION OF THE PROCEDURE.

THIS PROCEDURE IS SUBJECT TO REVIEW BY THE STATE LANDS COMMISSION PRIOR TO FUTURE CALLS FOR BIDS.

Attachment
Calendar Item 25 (6 pages)

Resolution rescinded on May 25, 1967 minute Item 57, minute page 76 to 80. EAD

25.

CITY OF LONG BEACH AND THUMS LONG BEACH COMPANY PROPOSAL FOR RESTRICTIVE PURCHASES OF OIL WELL TUBULAR PRODUCTS - W.O. 5200.309.2 AND W.O. 5200.206.

The City of Long Beach and THUMS Long Beach Company have requested State Lands Commission approval of a restricted bidding procedure to effect purchase of oil country tubular products to be used in the development of the Long Beach Unit of the Wilmington Oil Field. Pursuant to a number of requests by foreign supply firms who would be precluded from bidding on these products if the restricted bidding were approved, the State Lands Commission held a public hearing on this matter on August 26, 1965, in Los Angeles.

The proponents of the THUMS proposal cite as basic arguments in support of their position:

1. Thums Company has many years of experience in this field and their judgment should be relied upon.
2. Most oil producers purchase domestic pipe because they can be best assured of a guaranteed, steady supply of materials of high quality for a reasonable price. Likewise a supply industry has been built on this base which assures around-the-clock attention to needed services.
3. Factors other than a strict cost comparison should be given higher consideration. These are:
 - a. Employment in the oil well supply industry.
 - b. Tax revenues to federal, state and local governments.
 - c. Future capital development of the steel industry in California.
4. The extension of foreign purchases was noted as a factor adversely affecting the balance of payments situation. Cited was President Johnson's request to avoid non-essential foreign purchases to reduce the drain on U. S. gold reserves.
5. Foreign purchases to meet these requirements would give further impetus to the inroads foreign steel producers were making on the domestic market.
6. The city and state are benefitting from the establishment of maximum import quotas on foreign oil. If unlimited supplies of this cheaper crude oil were allowed to flow into California, the price of crude oil in the state would drop. This would adversely affect the price received for crude oil from the Wilmington Oil Field.

SUPPLEMENTAL CALENDAR ITEM (CONTD.)

25.

7. The purchase of foreign pipe would upset precedents involving long-established buying practices of many major firms within the oil industry who have historically favored domestic procurement.

The opponents of the proposal cite as arguments in support of their position:

1. Savings of 10% to 15% in prices if open competitive bidding were permitted.
2. Pricing practices of the domestic steel industry are not conducive to actual competition in bidding unless open competitive bidding is allowed.
3. The purchase of foreign versus domestic tubing and casing has little effect on the California economy. All of the producers of this commodity have their manufacturing facilities located outside the state. Such fabrication and service work as is required in the state will be about the same whether the material is of foreign or domestic origin.
4. The federal government is attempting to encourage increased international trade. At no time has the argument been advanced that international trade has other than a salutary effect on the Nation's balance of payments.
5. California has a vital interest in foreign trade. It was reported that 240,000 jobs in California are directly related to the business of international trade. An action restricting foreign sources from bidding could have an adverse effect on the various segments of the California economy that benefit from foreign trade.
6. Quality standards met by foreign producers are the same as those met by domestic firms. Several oil companies operating in California have made extensive use of foreign pipe in their developments.
7. The allegation that the Japanese government subsidizes their steel industry is false.
8. American firms have underbid distributors of Japanese made line pipe on several occasions. This indicates that American firms can be competitive if required to do so.
9. The only way to determine a "reasonable price" is by open and competitive bid.

Written representations bearing upon the THUMS proposal to restrict bidding on oil well casing and tubing to domestic firms were presented by the following:

American Iron and Steel Institute
John P. Roche, President

SUPPLEMENTAL CALENDAR ITEM (CONTD.)

25.

Armco Steel Corporation
Logan T. Johnson, President

Armco Steel Corporation
G. C. Merkley, Works Manager, National Supply Division

Bethlehem Steel Corporation
J. C. Smith, Assistant to General Manager
of Pacific Coast Sales

City of Long Beach
John R. Mansell, City Manager

Continental-Emsco Company, a Division of The Youngstown
Sheet and Tube Company
R. C. Rieder, President

Continental-Emsco Company, a Division of The Youngstown
Sheet and Tube Company
Lynn O. Hossom, Counsel

Consulate General of Japan
Tsutomu Wada, Consul General

Delaney Petroleum Corporation
L. A. Delaney

Franwin Oil and Gas Company
W. S. Payne, Jr., President

Faye Goetz

Howard Supply Company
H. E. Howard, President

Jones & Laughlin Steel Corporation
John E. Timberlake, Vice President - Sales

Kaiser Steel Corporation
Charles F. Cooper, Manager of Marketing

Keenan Pipe & Supply Company
Fred V. Keenan, President

Mid-Continent Supply Co.
William S. Davis, President

Northrup Architectural Systems
H. E. North, Jr., President

Republic Steel Corporation
S. A. Crabtree, Vice President - Sales

SUPPLEMENTAL CALENDAR ITEM (CONTD.)

25.

The Republic Supply Company of California
Thomas P. Pike, Chairman of the Board

United States Department of Commerce
John R. Connor, Secretary of Commerce

United States Department of Commerce
Edward K. Smith, Acting Assistant Secretary for
Economic Affairs

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

United States Steel Corporation
Leslie B. Worthington, President

United States Steel Corporation
Ralph W. Seely, Vice President - Sales
Western Area

United Steelworkers of America
John J. Sheehan, Legislative Representative

Wise, Kilpatrick & Clayton, Attorneys at Law

The following conclusions and recommendations of the staff are based on the total testimony presented at the public hearing and on information subsequently submitted or developed.

1. The development of the Long Beach tidelands is, in essence, a commercial enterprise in which the State of California has a predominant, although not exclusive, economic interest rather than a strictly governmental activity which would dictate compliance with the California Buy American Act.
2. In this instance, there is general agreement among both the proponents and opponents of the THUMS proposal that there could be a direct saving to the State of California of between six and ten million dollars if bidding is open and competitive.
3. Although much has been made of the adverse effect that a decision to insist upon open bidding would have upon the Nation's economy, particularly with respect to its balance of payments, the facts submitted do not support this argument. The Honorable John T. Connor, Secretary of Commerce, stated in a telegram submitted in evidence to the Commission that "We have excluded this (curtailment of imports) 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 cases mentioned in your letter of August 19 but we expect choices between domestic and foreign goods to be based solely on commercial considerations." Additionally,

SUPPLEMENTAL CALENDAR ITEM (CONTD.)

25.

a letter from the Acting Assistant Secretary of Commerce for Economic Affairs addressed to the Commission confirms this attitude on the part of the Department of Commerce.

It is further recognized as a result of staff discussions with an official representative of the Department of Commerce that this is the staff opinion of one agency of the federal government and might not reflect other federal policy considerations. However, public knowledge of the proposed purchase and the lack of any other communication from the federal government on the matter would cause the staff to concur with the Department of Commerce that this is primarily a California concern.

4. Both the Federal Government and the State of California have, in recent years, engaged in aggressive promotional efforts to increase world trade. During 1963 goods valued at \$449,778,772 were shipped to Japan through the California custom districts. Principal products of at least partial California origin included cotton, \$70.5 million; meat and animal products, \$42.0 million; iron ore and concentrate and iron and steel scrap, \$50.1 million; petroleum products, \$42 million; and other agricultural products, \$35.6 million.

Imports from Japan through the California customs districts alone in 1963 totaled \$460,660,636. Total U. S. Exports to Japan in 1964 amounted \$1,893,704,630, while imports from Japan totaled \$1,763,415,674, thus the over-all balance of trade with Japan is favorable to the United States. This data was obtained by the staff from the World Trade Center Authority.

It is apparent, therefore, that foreign trade, and particularly trade with Japan, is of mutual benefit and that it results in the creation of jobs, income, and other revenues. An unfavorable attitude toward such trade by an agency of the State Government of California might well have harmful and lasting effects on many sectors of the California and national economies dependent upon the inter-action of trade with other nations.

5. If, at any future time, the Commission is informed by responsible officials of the federal government that the requirement for open, competitive bidding is adversely affecting the Nation's economy, the Commission would be free to review its findings.
6. Mr. Sheehan, representing the United Steelworkers of America, made the point that failure to place the order for oil well casing with domestic producers would result in a loss of 1,600,000 man hours of employment by those engaged directly in steel production. An analysis of this statement, viewed in the light of a six-year interval estimated to be the period of major development in the field, shows that it would mean employment for only 135 steelworkers over the six-year period. For

SUPPLEMENTAL CALENDAR ITEM (CONTD.)

25.

this reason, this was not considered to be a major argument and hence was not included among the listing of the arguments of the proponents.

7. Testimony presented at the hearing indicated that open bidding has been the practice by THUMS in the purchase of line pipe and welded conductor casing which are manufactured by California firms and that Japanese firms have obtained orders, whereas THUMS now proposes to limit bidding on the seamless steel tubing, which is not produced in the state, to preclude bidding by foreign firms. This is an apparent inconsistency which tends to invalidate many other arguments put forth by the proponents of the limited bidding procedure.
8. The staff is informed that there are in the free world only fourteen major producers of the type of oil well tubular goods under consideration. Seven of these concerns are located in the United States; two are in Japan and the remainder are in the countries of Western Europe. All of these firms manufacture according to specifications established by the American Petroleum Institute and are authorized to use the official monogram of the Institute. For this reason, there seems to be no reason at this time to question the quality of tubular goods produced by any of these manufacturers.
9. A procedure for bidding on an increment or increments of requirements for a total of not more than those required for the anticipated annual development program appears to be most practical for all concerned for the following reasons:
 - a. Contracts for casing and tubing would tie in with the budgeting for field development and would permit orders to be placed on the basis of realistic predictions.
 - b. In the event that technological advancements result in improvements in the quality of the tubular goods required, there would be no long term commitment to purchase pipe of a particular specification.
 - c. Any long term contract would necessarily have to contain escalation provisions which could not be predicted with precision.

IT IS RECOMMENDED THAT OIL WELL CASING, TUBING, AND LINE PIPE REQUIREMENTS FOR THE LONG BEACH UNIT DEVELOPMENT PROGRAM BE PURCHASED UNDER A PROCEDURE SPECIFYING:

- A. OPEN COMPETITIVE BID BY ALL SUPPLIERS
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