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INQUIRY INTO THE STRATEGIC AND CRITICAL MATERIAL STOCKPILES OF THE UNITED STATES

HEARINGS

BEFORE THE

NATIONAL STOCKPILE AND NAVAL PETROLEUM RESERVES SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

STOCKPILE EXCESS DISPOSITION ACT OF 1962, PLATINUM, TIN, AMERICAN CHROME CO. CONTRACT

JULY 18, 19, 23, 31; AUGUST 1 AND 3, 1962

PART 5

Printed for the use of the Committee on Armed Services

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JULY 18, 19, 23, 31; AUGUST 1 AND 3, 1962

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Printed for the use of the Committee on Armed Services



U.S. GOVERNMENT PRINTING OFFICE
83502 WASHINGTON : 1962

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STOCKPILE INVESTIGATION

WEDNESDAY, JULY 18, 1962

U.S. SENATE,
SUBCOMMITTEE ON THE NATIONAL STOCKPILE
AND NAVAL PETROLEUM RESERVES OF THE
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee (composed of Senators Symington (chairman), Thurmond, Engle, Cannon, Bush, and Beall) met, pursuant to notice, in room 235, Old Senate Office Building, at 10:05 a.m.

Present: Senators Symington (presiding), Thurmond, Cannon, Bush, and Beall.

Also present: Richmond C. Coburn, chief counsel to the subcommittee; T. J. May, assistant counsel; J. H. Zimmer, assistant counsel; Edward O. McCue III, assistant counsel; and James J. Gehrig, special assistant to Senator Symington.

Senator SYMINGTON. The hearing of the Subcommittee on Stockpile will come to order.

I have several brief statements.

First, I have a letter from Mrs. Francis Case, a personal letter I know every member of the committee would want to read. It has to do with the resolution we passed as the result of the death of our colleague. I will not make it a part of the record because of the personal nature of the letter.

I also have a short statement here with respect to an article that appeared in the press.

The American Metal Market of Friday, July 6, 1962, carried a story entitled "Joint Congress Unit's Testimony Doesn't Jibe With Symington Probe."

The story was directed to pointing up a vast area of difference in interpretation of testimony of witnesses before the Joint Congressional Defense Production Committee and this Stockpile Subcommittee.

The alleged difference in testimony is that of Mr. Louis Brooks before this subcommittee to the effect—

that the Government was forced to write off as bad debts moneys owed to the Government on stockpiling contracts held by some 25 or 30 metals firms—

as compared with his quoted statement before the Joint Defense Production Committee—

it is expected that a large proportion of the amounts shown as written off will in fact represent bookkeeping adjustment for doubtful Government claims rather than actual losses.

The fact of the matter is that there was no testimony by Mr. Brooks before this subcommittee on this subject. He did testify on June 5

and 6, 1962, before the Senate Committee on Banking and Currency considering the 1962 amendment to the Defense Production Act of 1950, S. 3203.

During testimony on June 5, as reported on pages 34 to 36 of the committee hearings, Mr. Brooks said $881,543 in accounts receivable were written off by GSA under its Defense Production Act program for reasons of failure to pay as well as—

from disputed items as to whether or not a proper obligation to pay exists.

At the Banking and Currency Committee's request, a detailed analysis of these losses was prepared and submitted by letter of June 25, 1962, copy of which is attached. This analysis confirms that a large proportion of the amounts written off represent bookkeeping adjustments of doubtful claims rather than actual losses on valid claims.

At no time was there any "retraction" of testimony that a number of metals firms failed to pay debts owed to the Government on stockpiling contracts.

I submit this statement for the record because, regardless of the reaction of various people incident to the efforts on our part to bring out facts with respect to the problem at hand, I know everybody wants to see any future decisions made based on the facts, not on misrepresentations.

(The letter of June 25, 1962, referred to, is as follows:)

GENERAL SERVICES ADMINISTRATION,
OFFICE OF FINANCE AND ADMINISTRATION,
Washington, D.C., June 25, 1962.

Mr. MATTHEW HALE,
Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. HALE: In my letter of June 14, 1962, you were furnished a list of names and amounts of accounts receivable written off by General Services Administration under its Defense Production Act program from inception in 1950 through December 31, 1961. This list, totaling $881,543, did not provide the extent of detail requested by the committee during the course of the hearings before the committee on June 5 and 6, 1962.

We have now completed an analysis of the reasons for the amounts written off, and as previously indicated, a large proportion represents bookkeeping adjustments for doubtful claims rather than actual losses on valid claims.

A copy of our detailed analysis is attached. In certain instances, after extensive research and communication with various GSA regional offices, we remain unable to provide a full explanation or identification of the amounts written off in view of the fact that the underlying records are no longer available. We trust that the attached analysis will adequately serve the committee's purpose.

Sincerely yours,

LOUIS BROOKS,
Deputy Director, Credit and Finance.

Analysis of losses in accounts and notes receivable under the Defense Production Act as of Dec. 31, 1961

Kaiser Aluminum & Chemical Corp., 1625 I St. NW., Washington, D.C.--- $46,291
No valid basis for claim developed, therefore prematurely established account receivable written off.

Reynolds Metals Co., Reynolds Metals Bldg., Richmond, Va---------- 67,555
No valid basis for claim developed, therefore prematurely established account receivable written off.

Cramet, Inc., Chattanooga, Tenn---------- 1,537
Administratively uncollectible. Referred to GAO for collection.

Climax Molybdenum, Climax, Colo---------- 5,986
Disputed loss and damage claim collected by GAO.

Cosmopolitan Shipping Co., 42 Broadway, New York, N.Y---------- 179
Administratively uncollectible. Referred to GAO for collection.
El Ghedem Corp., 701 Tower Bldg., Washington, D.C---------- 16,800
After liquidation of operation, uncollectible balance of advance written off on advice of Department of Justice.
Holland American Line, 29 Broadway, New York, N.Y---------- 153
Administratively uncollectible. GAO authorized chargeoff.
Meyer Lines, Inc., 24 State St., New York, N.Y---------- 204
Demurrage claim. GAO authorized chargeoff.
Mines Consolidados, S.A., Bolivar, Mexico---------- 156
Administratively uncollectible. Referred to GAO for collection.
Riviera Mines Co., Post Office Box 6067, Phoenix, Ariz---------- 68,111
Administratively uncollectible. Referred to GAO for collection.
Prod. Trans. Line & Mineral (Bahiana), 15–17 Beekman St., New York, N.Y---------- 6,033
Administratively uncollectible. Referred to GAO for collection.
U.S. Trucking Corp., 66 Murray St., New York, N.Y---------- 804
Demurrage claim. GAO authorized chargeoff.
Yip In Tsoi, Bangkok, Thailand---------- 10,290
No valid basis for claim developed. Account receivable written off.
White Pine Copper Co., 24 Federal St., Boston, Mass---------- 12,018
GAO ruled that claim was not valid.
Copper Creek Consolidated Mining Co., 95 Camino Espanol, Tucson, Ariz---------- 239,297
Defaulted contract; submitted to GAO for collection. Advised company insolvent.
New York, Chicago & St. Louis R.R., Cleveland, Ohio---------- 987
Demurrage. GAO authorized chargeoff.
McCullough Transfer Co., 513 Paterson Ave., East Rutherford, N.J---------- 3,834
Administratively uncollectible. Referred to GAO for collection.
J. F. Mulkney & Co., West 8 Mile Rd., Detroit, Mich---------- 37,997
Company bankrupt. Referred to Department of Justice. GAO authorized chargeoff.
National Gauge Co., Inc., 101 West Peddie St., Newark, N.J---------- 5,148
Referred to Department of Justice. Closed on advice of GAO after collection.
Machine Products Co., Inc., Prairie, Miss---------- 700
Referred to GAO for collection.
Premier Mill Corp., 61 Gate Ave., Geneva, N.Y---------- 24,096
Company bankrupt. Case closed by Department of Justice.
McPherson Broach Co., 6250 2d Blvd., Detroit, Mich---------- 15,557
Administratively uncollectible. Referred to GAO for collection.
Reserve Machine & Design Co., 101 Fulmer Ave., Akron, Ohio---------- 7,234
Company bankrupt. Referred to GAO for collection. Partial recovery obtained.
Overarms Industries, Inc., Chicago, Ill---------- 1,642
Company bankrupt. Referred to Department of Justice.
Bridgeport Safety Emery Wheel Co., Bridgeport, Conn---------- 880
Company bankrupt. Referred to Department of Justice. GAO authorized chargeoff.
W. M. & W. Mining Co., Miami, Okla---------- 18,065
Administratively uncollectible. Referred to GAO for collection.
Kenna Metal, Inc., Latrobe, Pa---------- 74,556
Claim recorded prematurely since now before Board of Review.
U.S. Tin Co., 4th and Pike Bldg., Seattle, Wash---------- 1,422
Referred to Department of Justice. GAO authorized chargeoff.
Mid-Continent Mining Corp., West 2681 1st National Bank Bldg., St. Paul, Minn---------- 35,672
After liquidation of operation, uncollectible balance charged off as authorized by GAO.
T. A. Desmond Co., 350 5th Ave., New York, N.Y---------- 152
Administratively uncollectible. Referred to GAO for collection.
Silver Lines, Inc., 196 Stanton St., New York, N.Y---------- 280
Demurrage. GAO authorized chargeoff.
C. T. Wilson, 120 Wall St., New York, N.Y---------- 226
GAO authorized charge off.

Firestone Plantation Co., 1200 Firestone Parkway, Akron, Ohio Demurrage. GAO authorized chargeoff.	448
Compania Explotadorade Minerales, SA, PA Santos No. 1 Ciudad de Valles, SLP, Mexico Administratively uncollectible. Referred to GAO and collected in full.	7,132
Herman Weber & Co., 76 Beaver St. New York, N.Y No valid claim developed. Account receivable written off.	1,294
South Asia Corp., 11 Broadway, New York, N.Y Administratively uncollectible. Referred to GAO for collection.	881
Great Northern Railroad, St. Paul, Minn Demurrage. GAO authorized chargeoff.	1,092
Bridge Warehouse Corp., 636 Church Ave., Woodmere, Long Island, N.Y Company bankrupt. Referred to GAO for collection.	2,791
M. Goldetz & Co., 120 Wall St., New York, N.Y GAO authorized chargeoff.	195
Norwegian American Line, 24 State St., New York, N.Y Demurrage. GAO authorized chargeoff.	951
Sun Valley Mining Co., 11370 Pendleton St., Sun Valley, Calif Claim for illegally supplied tungsten. Administratively uncollectible. Referred to GAO for collection.	27,076
Black Pearl Mining Co., Bagdad, Ariz Settled by Department of Justice for $5,000. GAO authorized write off account.	8,928
Clyde D. Atchinson, Jr., 11608 Clayton St., Los Angeles, Calif Administratively uncollectible. Claim for illegally supplied tungsten. GAO authorized write off. Currently in hands of Department of Justice.	15,918
Ambrosia Minerals, Inc., Socorro, N. Mex Administratively uncollectible. Referred to GAO for collection.	714
Concho Bluff Oil Co., Midland, Tex Administratively uncollectible. Referred to GAO for collection.	320
Florida Manganese, Inc., Deming, N. Mex Administratively uncollectible. Referred to GAO for collection.	2,238
M & M Mining Co., Socorro, N. Mex Administratively uncollectible. Referred to GAO for collection.	128
Chris G. Muller, Wilcox, Ariz Administratively uncollectible. Referred to GAO for collection.	66
Rific Co., Socorro, N. Mex Administratively uncollectible. Referred to GAO for collection.	1,412
C. H. Butler, Englewood, Colo Administratively uncollectible. Referred to GAO for collection.	490
Charles W. Davis, Denver, Colo Administratively uncollectible. Referred to GAO for collection.	2,172
Howard Hammer, Missoula, Mont Administratively uncollectible. Referred to GAO for collection.	125
E. C. Hughes, Long Beach, Calif Administratively uncollectible. Referred to GAO for collection.	74
J. Jacobson, Missoula, Mont Administratively uncollectible. Referred to GAO for collection.	147
Mitchell Mining Co., Mount Vernon, Utah Administratively uncollectible. Referred to GAO for collection.	133
Roy D. Mason, Keystone, S. Dak Administratively uncollectible. Referred to GAO for collection.	53
Carl E. Wier, Sioux Falls, S. Dak Administratively uncollectible. Referred to GAO for collection.	42
Kenneth L. Smith, Pringle, S. Dak Administratively uncollectible. Referred to GAO for collection.	68
Rising Sun Mining Co., Billings, Mont Administratively uncollectible. Referred to GAO for collection.	652
Leslie Pierce, Keystone, S. Dak Administratively uncollectible. Referred to GAO for collection.	158
Leo Scott, Custer, S. Dak Administratively uncollectible. Referred to GAO for collection.	140
R. W. Evans, Custer, S. Dak Administratively uncollectible. Referred to GAO for collection.	388

Ray Darling, Denver regional office---------- 23
Administratively uncollectible. Referred to GAO for collection.
Don Davidson, Denver regional office---------- 158
Administratively uncollectible. Referred to GAO for collection.
Tom Druyvesteyn, Denver regional office---------- 290
Administratively uncollectible. Referred to GAO for collection.
Ed Hughes, Denver regional office---------- 372
Administratively uncollectible. Referred to GAO for collection.
P. K. R. Mining, Denver regional office---------- 1,042
Administratively uncollectible. Referred to GAO for collection.
Tinical, Denver regional office---------- 130
Administratively uncollectible. Referred to GAO for collection.
J. H. Stivers, Denver regional office---------- 539
Administratively uncollectible. Referred to GAO for collection.
L. Vanderpool, Denver regional office---------- 100
Administratively uncollectible. Referred to GAO for collection.
Woodrow Duncan, Spruce Pine, N.C---------- 107
Administratively uncollectible. Referred to GAO for collection.
S. J. Grindstaff Route 1, Green Mountain, N.C---------- 23
Administratively uncollectible. Charged off under authority of GAO regulations.
M.B. Jolley, route 3, box 338, Gaffney, S.C---------- 14
Administratively uncollectible. Charged off under authority of GAO regulations.
Ted McMahon, Newdale, N.C---------- 64
Administratively uncollectible. Referred to GAO for collection.
G. H. Synder, route 1, Bakersville, N.C---------- 33
Administratively uncollectible. Referred to GAO for collection.
Paul Wilkie, route 3, Gaffney, S.C---------- 39
Administratively uncollectible. Referred to GAO for collection.
Lee Ledford, route 1, Bakersville, N.C---------- 11
Administratively uncollectible. Charged off under authority of GAO regulations.
Spurgeon Buchanan, route 1, Spruce Pine, N.C---------- 10
Administratively uncollectible. Charged off under authority of GAO regulations.
Nick Stigailo, Pensacola, N.C---------- 13
Administratively uncollectible. Charged off under authority of GAO regulations.
John Buchanan, Altamont, N.C---------- 537
Administratively uncollectible. Referred to GAO for collection.
Moon Mining Co., Spruce Pine, N.C---------- 122
Administratively uncollectible. Referred to GAO for collection.
Allen Marcus, route 2, Spruce Pine, N.C---------- 104
Administratively uncollectible. Referred to GAO for collection.
Roy L. Wiseman---------- 1
Administratively uncollectible. Charged off under authority of GAO regulations.
H. Hooker, Vests, Va---------- 290
Administratively uncollectible. Referred to GAO for collection.
New Mexico Mining Co., box 747, Spruce Pine, N.C---------- 76
Administratively uncollectible. Referred to GAO for collection.
Alice R. Stewart, box 364, Spruce Pine, N.C---------- 211
Administratively uncollectible. Referred to GAO for collection.
Andy Benefield, Plumtree, N.C---------- 448
Administratively uncollectible. Referred to GAO for collection.
Claude Buchanan, Hawk, N.C---------- 289
Administratively uncollectible. Referred to GAO for collection.
A. Mining Co., care of Rex O. Wilson, Spruce Pine, N.C---------- 185
Administratively uncollectible. Referred to GAO for collection.
Harold Dellinger, Newland, N.C---------- 106
Administratively uncollectible. Referred to GAO for collection.
Earl Greene, Spruce Pine, N.C---------- 123
Administratively uncollectible. Referred to GAO for collection.
Sam Ollis, Ingall, N.C---------- 145
Administratively uncollectible. Referred to GAO for collection.

J. L. Gray, Jr., Inglewood Rd., Lynchburg, Va	3,317
Demurrage. Administratively uncollectible. Referred to GAO for collection.	
Mica program	9,073
Represents 17 claims resulting from the domestic mica program in Franklin, N.H., which were administratively uncollectible and referred to GAO for collection.	
Boston regional office	10,627
Dallas regional office	2,881
Seattle regional office	388
San Francisco regional office	191
Denver regional office	451
Washington central office	137
Represents claims charged off by various offices prior to 1957, under GAO regulations, for which details are not available at this time.	
Losses under rubber program	68,785
Loss and damage claims and demurrage charges involving 52 companies averaging $1,323 were authorized to be charged off by GAO under a special ruling.	
Total	881,543

Senator SYMINGTON. This morning we will take up legislation. It is clear from the testimony we have had to date that there is much delay, built-in delay, in the sale of unwanted materials in the three major stockpiles, the national stockpile, the Defense Production Act inventory and the supplemental stockpile.

This is because of various regulations and rulings and statutes. As an example, despite the fact there was considerable material recommended for sale by the past administration, and despite everybody's, to the best of my knowledge, agreeing this material should be sold, sale was effected only last month. It is this type and character of problem we hope to handle through legislation.

Many of our friends in the metals and materials industry have discussed the matter with us. We have no pride of authorship whatever in this proposed legislation. We submit it as a first draft, you might say. We do know, however, that some legislation is needed. With that premise, we are calling these first hearings on legislation this morning.

We all would agree that the taxpayer has the right to expect the Government to be able to sell materials or metals considered unnecessary from the standpoint of our security, and economy; therefore, in addition to criticism, I would hope that we would have some constructive suggestions as to what this legislation should contain.

Some form of legislation will be presented to the Congress.

(The proposed legislation is as follows:)

A BILL To authorize departments and agencies of the Government to utilize for certain use and procurement activities metals, minerals, and materials excess to the stockpiling requirements of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Stockpile Excess Disposition Act of 1962."

SEC. 2. Notwithstanding any other provision of law—

(a) In order to facilitate an orderly reduction in the excessive quantities of metals, minerals and materials owned by the United States, and in order to reduce the dollar expenditures by the Government in the purchase for direct use of such metals, minerals and materials, and in the procurement of weapons, equipment, supplies and services by the United States, the Administrator of the General Services Administration is authorized, upon request of the head of any department or agency of the Government, to transfer to such department or

agency any such metals, minerals and materials, as are in excess to strategic stockpile objectives then prevailing and which are held in the following Government inventories (1) the National Stockpile, (2) the Supplemental Stockpile, or (3) the Defense Production Act Inventory.

(b) The head of any department or agency of the Government is authorized and directed to use, to the maximum extent deemed practicable by him, such metals, minerals and materials for the purpose of obtaining a reduction in the dollar expenditure for procuring any such metals, minerals and materials for direct use by any department or agency of the United States and for procuring any weapons, equipment, supplies or service to be obtained outside the Government by such department or agency whenever such weapons, equipment or supplies are composed in substantial part, or the manufacture, production, preparation or furnishing thereof requires the use of substantial amounts of any of the same kinds of metals, minerals or materials which are authorized to be made available under the provisions of this Act.

(c) Whenever any such metal, mineral or material is utilized by any department or agency for direct use or for the purpose of procuring any weapons, equipment, supplies or services as authorized in this Act, the price to be placed on such metals, minerals, or materials by such department or agency shall be an amount equal to the fair market value thereof as determined by the Administrator of the General Services Administration. Any such determination by the Administrator with respect to price shall be final.

(d) Each department or agency of the Government receiving metals, minerals or materials under the provisions of this Act shall pay to the General Services Administration an amount equal to the fair market value thereof as determined by the Administrator of the General Services Administration; and the General Services Administration shall pay such amounts received by it into the general fund of the Treasury to be credited to miscellaneous receipts..

(e) The Administrator of the General Services Administration shall submit to the Congress at the end of each fiscal year a written report setting forth the details of all transfers to departments and agencies made under the provisions of this Act.

(f) The Administrator of the General Services Administration is further authorized, upon direction of the President and within the quantity limitations prescribed in subsection (a), to dispose of by sale any metals, minerals, or materials referred to in such subsection. No sale of any such metals, minerals, or materials shall be made pursuant to this subsection until 30 days after publication in the Federal Register and transmission of a notice of the proposed sale to the Congress and to the Armed Services Committee of each House thereof. Such notice shall state the kinds and amounts of metals, minerals, or materials to be sold and the date of the proposed sale. Sales made pursuant to the provisions of this subsection shall be made at such prices as the President may prescribe; and, to the extent the President determines sales under this subsection will not be unduly restricted, such sales shall be made with due regard to the protection of the United States against avoidable loss and the protection of producers, processors, and consumers against avoidable disruption of their usual markets. No prior publication or notice shall be required in those cases in which the Administrator of the General Services Administration transfers metals, minerals, or materials to a department or agency of the Government for utilization as provided in subsection (b) hereof.

SEC. 3. (a) Subsection (e) of Section 3 of the Strategic and Critical Materials Stock Piling Act is amended to read as follows:

"(e) dispose of any materials held pursuant to this Act in order to prevent deterioration thereof."

SEC. 4. Section 5 of the Strategic and Critical Materials Stock Piling Act is amended to read as follows:

The stock piles shall consist of all such materials heretofore purchased or transferred to be held pursuant to this Act, or hereafter transferred pursuant to section 6 of this Act, or hereafter purchased pursuant to section 3 of the Act, and not disposed of pursuant to the provisions of the Stock Pile Excess Disposition Act of 1962 or section 3 of this Act. Except for the disposal of any material pursuant to the provisions of the Stock Pile Excess Disposition Act of 1962 and the disposition of any material under section 3 of this Act to prevent deterioration, materials acquired undert his Act shall be released for use, sale or other disposition only (a) on order of the President at any time when in his judgment such release is required for purposes of the common defense, or

(b) in time of war or during a national emergency with respect to common defense proclaimed by the President, on order of such agency as may be designated by the President.

SEC. 5. The second sentence of section 104(b) of Public Law 480, 83d Congress, is amended by inserting immediately after "under the provisions of" the following new language "the Stockpile Excess Disposition Act of 1962 or".

Senator SYMINGTON. This morning we have two of our esteemed colleagues. We welcome the distinguished senior Senator from Utah, also the distinguished senior Senator from Colorado. Your interest in this matter is much appreciated by the committee. We are searching for what is right, in a rather involved and complicated field.

Let me once again say that any criticism, suggestion, or advice that you, Senator Bennett or Senator Allott have with respect to this legislation will be welcomed.

Senator Bennett, have you a statement?

STATEMENT OF HON. WALLACE F. BENNETT, A U.S. SENATOR FROM THE STATE OF UTAH

Senator BENNETT. Mr. Chairman, I appreciate the opportunity to come. I agree that there must eventually be a legislative solution of this particular problem.

I am a member of the Finance Committee which is trying to write the tax bill, with today and tomorrow to try to finish it up, so I am grateful for the opportunity to go first.

It would take me about 12 minutes to read what I have. I will be glad to skip through the highlights, and I promise you that if I try that I will not do what so many other witnesses do, take 20 minutes to skip through the highlights when they don't read their material.

Senator SYMINGTON. Let me assure my colleague that any way he likes to handle this is fine; our time is his time. It is a privilege for the subcommittee to listen.

Senator BENNETT. I am disturbed, as are the people in the mining industry in my State, at the possible implications of this particular legislation.

If the bill is passed and if the President under present market conditions uses the unprecedented authority given him by the bill our lead and zinc industry in Utah will be forced into bankruptcy. We have only a few operating mines and one surviving smelter.

These would be completely shut down and over 1,300 Utahans would lose their jobs.

One of the things that disturbs me about this bill is that Congress is asked to abdicate its power to the President. There are many instances of other situations in which Congress is being asked to turn over its power to the President. This is another, and my concern with this is the same as it was with the others.

The inference is that the American people are infallible when they select a President, but they fail completely in electing Senators and Representatives, therefore, Congress cannot be trusted with these problems.

I don't think any President should have the power of life and death over any industry, including the lead, zinc, copper, and other critical mining industries.

Now, if the bill were passed in its present form, the President would have the power to dispose of, by sale, any metals, minerals, or materials which are deemed in excess to stategic stockpile objectives then prevailing.

At the moment, then, we are saying to the President:

You can sell 142,000 short tons of copper, 1,016,000 short tons of lead, and 1,402,000 short tons of zinc.

These are the quantities that are supposed to be in excess.

This means the President could dump on the market $88.4 million worth of copper, $208.3 million worth of lead, and $336.4 million worth of zinc.

This would not only have a catastrophic effect on mining but I think it would make a shambles out of the Alliance for Progress, because our Western Hemisphere friends are supplying these same materials to us, and hope to go on doing it.

We have just gone through an experience with the sugar bill, and realize how excited these people got at the prospect of losing some sugar market. Think what would happen to them if they should suddenly discover that the stockpile is going to be the source of supply for lead, zinc, and copper for the immediate future.

I am sure there is already ample evidence of the effect of merely an announcement of this kind of a program on the markets.

Today the world price for lead and zinc—for lead on the London metal market—is at the lowest level it has been since 1946, and it has dropped half a pound, I think, largely since these discussions began.

Senator SYMINGTON. I think you mean half a cent a pound.

Senator BENNETT. Half a cent a pound, thank you. I am trying to hurry this thing through.

Senator SYMINGTON. Half a pound in Britain is a lot of money.

Senator BENNETT. Back in 1959 OCDM merely announced that it was considering the liquidation of 128,000 tons of copper as compared with the 142,000 that we are now in excess and this information was leaked to the public.

Two news stories appeared at that time in the Daily Metal Reporter, one article headed "Government Penny-Wise, Pound Foolish Copper Policy," and the other "Copper Markets Weaken by Government Disposal Talk."

These stories showed that the price of copper in the London market dropped sharply in 7 days about 2.62 cents per pound and at the same time the domestic market dropped 2 cents a pound.

The rumor was denied, and the copper was not sold, but this should remind us of what can happen in this situation.

Now the chairman has asked for some constructive suggestions. I would think that before a bill of this type is passed we should have a bill like S. 2747 passed which would protect the domestic mining industries.

That might make it possible for them to absorb some of this shock.

This is a proposal which, of course, runs directly in conflict with the President's trade proposal, because it would give tariff protection to these American industries, and on top of this the proposed draft suggestions that any Federal department or agency which needed minerals of the types in stockpile could acquire them directly from the stockpile, which could take the Federal Government out of the

market, for these important minerals, for a considerable period of time.

This means this bill would give the domestic market the old one-two punch.

First, the President could dump the metals on the market and then he could take away that part of the market control by the Federal Government. And this could be done—section 2 allows transfers from the stockpile to departments or agencies without any notice whatever to Congress.

This could be done without Congress being able to protect or to question the effects.

I think you will find as other witnesses came along today that the domestic mining industry generally opposed stockpiling when it was introduced. They would have preferred a tariff or quota solution, but this was denied them and they were told the stockpiling solution was a better one. This could be done without passage of any new law.

For a time it helped, now they are paying the consequences for that particular decision.

In conclusion, a few general observations. I am a member of the Banking and Currency Committee and the Joint Committee on Defense Production, and our committees have made many studies of the stockpile program, and this bill violates some of the general guidelines that the committee has developed.

First, it permits immediate dumping, and, second, it requires Congress to abdicate its responsibilities to the President.

The bill asks Congress to legislate in the dark. It has not been advised of current military requirements. The Department of Defense has not been able to update its estimates and the only available figures are 4 to 5 years old and the world has changed drastically in the last 5 years and Congress has not been advised by our military leaders concerning the needs for rehabilitation after an attack or war. There has been no policy formulated on the use of and need for the stockpile materials after a possible attack.

Congress cannot legislate intelligently without this vital information. Maybe this committee can get it in the course of its deliberations.

Therefore, until we have these, I think the present bill is premature, and I hope that the legislation the committee hopes to write will be based on different lines than those contained in this particular bill.

I thank my friend for this opportunity.

(The prepared statement referred to follows:)

STATEMENT BY HON. WALLACE F. BENNETT, A U.S. SENATOR FROM THE STATE OF UTAH

STOCKPILE DISPOSAL BILL—A THREAT TO THE SURVIVAL OF THE AMERICAN MINING INDUSTRY

Mr. Chairman, I greatly appreciate the opportunity to appear this morning before this distinguished subcommittee and discuss the proposed stockpile disposal bill.

If the bill is passed, and if the President, under present market conditions, uses the unprecedented authority given him, our lead and zinc mining industry in Utah will be forced into bankruptcy. The few remaining operating mines and the one surviving smelter will be completely shut down and over 1,300 Utahans will lose their jobs. At the same time, the copper industry will be dealt a grievous blow, creating added joblessness in all Utah copper mining, smelting, and refining operations.

CONGRESS ASKED TO ABDICATE TO PRESIDENT

The bill proposes that Congress be stripped of its powers over stockpile disposal activities, powers that are to be given to the President ,who in his all wise beneficence may unilaterally sell vast quantities of stockpiled items at whatever price he prescribes. The inference is that the American people are infallible in selecting a President but fail completely in electing Senators and Representatives; consequently, Congress is not to be entrusted with stockpile disposal matters. Instead, the President apparently alone is all wise and worthy to be entrusted with unfettered discretion over alleged "excess" items in the strategic stockpile. Such power would give him life and death control over our lead, zinc, copper, and other critical industries. No President should have such unlimited authority.

NEW POWER TO DUMP COPPER, LEAD, AND ZINC ON THE MARKET

Section 2(f) of the proposed bill empowers the President to "dispose of by sale any metals, minerals, or materials * * *" which are deemed "in excess to strategic stockpile objectives then prevailing." To put it another way, the President at the present time could unilaterally dump on the market 142,000 short tons of copper, 1,016,000 short tons of lead, and 1,402,000 short tons of zinc. Those are the quantities that are purportedly in "excess." In other words, this bill would permit the President to dump on the market $88.4 million of copper, $208.3 million of lead, and $336.4 million of zinc. Such action would have a catastrophic effect on our mining operations. The copper industry would go into a severe economic depression while the already depressed lead and zinc industries would be forced out of business.

The ramifications unleashed by sales of metals and minerals from the stockpile would not be confined to the United States. Such a step would create havoc in our relations with other ore producing countries throughout the world. The Alliance for Progress would be a shambles. Surely it is not in our interest to antagonize our Latin American, Canadian, and other friends of the free world. Moreover, from a standpoint of human relations, we must not cause unemployment and economic distress in these countries.

WELFARE OF AMERICAN MINE AND SMELTER WORKERS IGNORED

No doubt it will be argued that these large quantities would not all be sold at the same time. However, there is nothing whatever in the bill to block such wholesale dumping. The President can sell it; he sets the price; and he may only consider the economic welfare of copper, lead, and zinc miners if sales of these metals "will not be unduly restricted" by so doing. Such callous indifference to an entire industry has rarely, if ever, been articulated even in a draft bill.

Even if the President chose not to utilize all of the vast discretionary authority bestowed upon him by the bill, and instead sold smaller amounts of these metals, it would still be disastrous to the mining industry under present market conditions. The bottom would drop right out of the market, and there is not much room left to drop. Even rumors of stockpile sales cause prices to drop. It should be noted that since the announcement of the lead-zinc stockpile hearings held by this subcommittee, the world price for lead on the London Metal Exchange has dropped ½ cent per pound to the lowest level since 1946.

THREAT TO COPPER INDUSTRY

Back in 1959, the Office of Civil and Defense Mobilization was merely considering the liquidation of 128,000 tons of copper, and this information leaked to the public. Two news stories appeared at that time in the Daily Metal Reporter, the official trade paper of the mining industry, on Friday, April 17, 1959, one article headed "Government Penny Wise Pound Foolish Copper Policy"; the other "Copper Markets Weakened by Government Disposal Talk." These stories showed that the price of copper on the London Market dropped sharply in a matter of 7 days about 2.62 cents per pound. During the same period of time, the domestic price dropped from 31.5 cents per pound to 29.5 cents.

The rumor was denied by OCDM, but it definitely illustrates what can happen to the domestic price if any Government agency starts to dabble in the sale of copper in the foreign market.

NEEDED: LEAD AND ZINC TARIFF, NET DESTRUCTIVE GOVERNMENT SALES

In the case of lead and zinc, disposal of "excess" supplies from the stockpile must be deferred at least until the administration and Congress have passed S. 2747 to stabilize and protect the domestic lead and zinc mining industry. Until then, the industry could not absorb the economic shock of stockpile dumping. A serious question exists as to whether or not any lead, zinc, or copper should be sold from the stockpile at any time in the foreseeable future because of the resulting harsh economic consequences.

An interesting, if dangerous, portion of section 2(f) is that which permits the President to set the price at which sales are made from the stockpile. That could perhaps appropriately be termed Federal price fixing by the back door. By manipulating stockpile sales, the President could place an artificial ceiling on metal and mineral prices, albeit a depressingly low ceiling.

LOSS OF MAJOR GOVERNMENT MARKET FOR COPPER, LEAD AND ZINC

Section 2(a) permits any Federal Department or Agency to acquire "excess" stockpile metals and minerals for its own direct use and for procuring weapons, equipment, supplies or service whenever they are "composed in substantial part" of such metals and minerals. The same applies "whenever such weapons, equipments or supplies are composed in substantial part, or the manufacture, production, preparation or furnishing thereof requires the use of substantial amounts" of the metals or minerals. In fact, department and agency heads are not only authorized but are "directed to use to the maximum extent deemed practicable" such stockpiled metals and minerals. This means that copper, lead and zinc producers will lose in great part one of their largest markets, the Federal Government. Thus, they are going to get the old one-two punch under this bill. First, the President will dump the metals on the market, driving the price down and then the Federal Government is going to stop buying the metals on the market. That is all that is needed to knock out the mining industry entirely.

While section 2(a) places our miners at the mercy of Federal bureaucrats, the bill also has a neat little provision tucked away in section 2(f) which allows transfers from the stockpile to the departments or agencies without any notice whatever to Congress. In the case of Presidential sales, Congress is at least given 30 days notice, even if it can't do anything about the sale.

MINING INDUSTRY GENERALLY OPPOSED STOCKPILING

An ironic aspect of these proceedings is that the American mining industry generally opposed both the stockpile and barter programs. I have reviewed my files and they contain letters from mining leaders objecting to the 1954 stockpile program. They wanted tariff and quota protection, not Federal purchases. Yet, under this bill, the program which they didn't want can be used as a bludgeon to maim or kill their industry.

INADEQUATE DATA ON STOCKPILE NEEDS

In conclusion, I wish to make a few general observations. I serve on both the Banking and Currency Committee and the Joint Committee on Defense Production which have jurisdiction over the Defense Production Act which this bill would amend. We have made many studies of stockpile disposal problems and have concluded that any disposal plan must be of a long-range nature to prevent economic disruption, and that disposal requests should be approved by Congress. This bill violates both conclusions; first, it permits immediate dumping; and, second, it requires Congress to abdicate its responsibility to the President. This is most regrettable and unwise.

The bill asks Congress to legislate in the dark. First of all, we have not been advised of current military requirements. The Department of Defense has been dilatory in updating its estimates and the only available figures are 4 or 5 years old. Surely we cannot rely on such ancient strategic information. The world has changed drastically in the past 5 years. Secondly, Congress has not been advised by our military leaders concerning rehabilitation needs after an attack of war. There has been no policy formulated on the use of and need for stockpile materials after such an attack. Congress cannot legislate intelligently without both of these vital pieces of information. Since we have neither, the present bill is most premature. It should be rejected.

Senator SYMINGTON. I thank the Senator.

Because of my respect for your opinion in this matter, I would hope that, in addition to your comments which it is fair to say are overall critical of the suggested legislation, you might, at your convenience, suggest legislation to us perhaps in legislative form.

I do not agree with some of the opinions in your statement nor do I entirely agree with some of the asserted facts. But we will study your statement.

I found no group who feel more that the stockpile is overexpanded than does the military, the Defense Department. Long before the establishment of the 3-year maximum objective as against 5 years, the Defense Department was working to see that reduction made.

On prices, and on how the industry has been affected by prices, you mentioned lead and copper. There was talk about what the hearings of this subcommittee have done to prices.

On January 1, 1962, the price of lead was 10¼ cents a pound. On June 21, 1962, it was 9½ cents a pound. With respect to copper, on January 1, 1962, the price of copper was 30⅝₁₀ cents a pound. On June 21, 1962, the price was the same, 30⅝₁₀ cents a pound.

I consider this somewhat remarkable, especially because of the break in the stock market. In case the able Senator from Utah owns some stocks he knows what I am referring to.

Senator BENNETT. Maybe the Senator from Utah should say he is fortunate not to have owned any. In fact, the Senator from Utah has only two issues that are traded on the stock market. He suffered with those but probably not as much as if he had bought some of the glamour leaders.

Senator SYMINGTON. Inasmuch as the senior Senator from Utah is a former president of an organization that I used to be identified with years ago, the National Association of Manufacturers, whether he is in the market or out of it, I know he knows the connotation of my observation.

Senator BENNETT. That is right.

Senator SYMINGTON. I know my friend from Utah is fair and just. What worries me in this situation is that many of our colleagues are demanding that the President sell this inventory now.

The President, when he mentioned this 6 months ago, stated it should be moved in orderly fashion; therefore I would observe that there would be no dumping, because of the President's interest in the future of our economy. I don't think it fair for anyone in Congress to be demanding that the President sell what is considered surplus to the inventory, but at the same time refuse to pass legislation which would make it possible for the President to properly sell.

Everybody wanted to accede to the recommendation of Mr. Floete, in early January 1961, to sell some unwanted materials. Yet it was only last month we were able to do so, one of the chief reasons being that, in the national stockpile, you cannot sell anything for 6 months, even though both the Congress and the administration agree the sale should be made.

The Senator, based on his long and successful business experience, knows that if you have to wait 6 months to transact a business deal, by the time the 6 months in question are over, the chances might well be

that you wouldn't want to make the deal you had decided to make 6 months before.

This is the type and character of problem, however, I think should be brought up, and discussed frankly in these hearings, so we can do our best to get some constructive legislation proposals, not from a particular segment of the economy, but from the standpoint of the people of the country as a whole.

Senator BENNETT. Well, Mr. Chairman, I appreciate those comments. Let me repeat: I don't want to create the impression that I think this material should be frozen into the stockpile and there should be no opportunity to dispose of excess.

I would like to keep Congress in the picture, and as I said earlier in my statement, I think the committee, or some other committee having appropriate jurisdiction, should be concerned with legislation which can protect these domestic industries against the effect of sale, or cushion the shock of the sale, and I would hope that legislation could be on the books by the time a long-range program is adopted.

Senator SYMINGTON. You are speaking specifically of higher tariffs, are you not?

Senator BENNETT. Well, the lead and zinc industry, which is represented in my State and is an important part of our economy, has taken the position they want a flexible tariff provision which can give them more or less level protection, and it is a higher tariff than exists now.

Senator SYMINGTON. As you know, that was recommended in lead and zinc some years ago. Members of the President's Cabinet, President Eisenhower's Cabinet, approved it, including Secretary Humphrey, but Secretary Dulles, was opposed, and President Eisenhower decided against it.

Senator BENNETT. That is right.

Senator SYMINGTON. Decided to increase the objectives instead.

Senator CANNON. Will the Senator yield at that point?

Senator SYMINGTON. I will be glad to yield.

Senator CANNON. I thank the Senator for yielding to me. It seems to me if this bill were passed, wouldn't it have exactly the effect that the Senator from Utah is complaining of when he says that the ramifications unleashed by sales of metals and minerals from the stockpile would not be confined to the United States?

Such a step would create havoc in our relations with other ore-producing countries throughout the world. The Alliance for Progress would be a shambles.

Now, aren't you suggesting something that would make the Alliance for Progress even more of a shambles when you say that we should have a higher tariff on these minerals?

Senator BENNETT. Well, the Senator from Utah would make this observation:

If we adopted a tariff program I am sure these people would oppose it vigorously, but it would become a program which would extend over a period of time and with which they could live.

The right or the expectation that sales would be made out of the stockpile more or less without notice would make it as difficult for them to plan in these foreign countries as it would for us.

There is no easy, simple, sugar-coated answer to this question, which rests on the fact that we have an excess of world production of these minerals, and we have to choose between some protection to our own domestic industry, and the well-being of our friends abroad. We have to find some kind of a combination that will have the best possible consequences for both. But I am afraid that a bill like this, with no offsetting protection to the American mining industry, would, from my point of view—and I will be interested in following the hearings of the committee as they progress—would create a situation which would produce so many uncertainties and unpredictable possibilities that this would leave both the foreign and domestic industries in a state of uncertainty. I know this was quoted during the sugar hearings—you are better off knowing the worst and can adjust to it than you are wondering what is going to happen.

Senator CANNON. Will the Senator yield further?

Senator SYMINGTON. Yes.

Senator CANNON. With reference to the Senator from Utah's position, I am wondering if he feels that the language in section 2 in this respect has no meaning at all, and I refer to the provision concerning sales which says—

> Such sales shall be made with due regard to the protection of the United States against avoidable loss and the protection of producers, processors and consumers against avoidable disruption of their usual markets.

Does the Senator feel that language has no meaning in the bill or that it is not strong enough to take care of the desired ends or what is his position in that respect?

Senator BENNETT. In the first place it is put as a secondary consideration, loss to the Government is the first consideration, and this is a secondary consideration.

It seems to me the very existence of the power to sell from the stockpile more or less without notice is going to make it very difficult to protect the industry against disruption and difficulty, when even the announcement of the prospect of a sale has, in the past, at least, had an effect on the market.

Senator CANNON. When you say "more or less without notice," you feel that the 30-day notice is actually more or less without notice?

Senator BENNETT. The President has the power to turn this metal over to the departments of the Government without notice.

Senator CANNON. We are talking about sale, though, you said sales "more or less without notice."

Senator BENNETT. Well, I regard the two as being part of the same process.

Senator CANNON. I see.

Senator BENNETT. Because if the Defense Department buys 50,000 tons of copper from the stockpile, that deprives current producers of a market opportunity, and will have a depressing effect on the market, in my opinion.

Senator CANNON. If a 30-day notice provision were put in with respect to use by the departments, does the Senator feel that would be a protective provision?

Senator BENNETT. I don't think it would necessarily be completely protective, but I think it would be an improvement.

Senator CANNON. An improvement.

I thank the Senator for yielding.

Senator BEALL. Mr. Chairman, may I ask a question?

Senator SYMINGTON. Senator Beall.

Senator BEALL. Then I take it you favor the retention of the 6-month notice?

Senator BENNETT. Well, as the chairman said, that can be a barrier to a wise solution. I am not in a position to say how long the notice should be. But I think there should be some notice, and I would like to see some kind of proposition in the bill which would permit Congress to have some say in this program, whether it is a provision that says the President, if sale is to be of an amount greater than a certain amount, must report to this committee or must give Congress 60 or 90 days to reject the proposal, something of that kind.

I would like to see, I think maybe for the protection of the President himself, some division of responsibility in the disposition of these metals in very substantial amount, an amount which might really depress the market.

Senator SYMINGTON. Let me present some problems we have I know the Senator will be sympathetic with.

The leading lawyer in this field in this administration, who also was the leading lawyer in this field in the past administration, says today that nothing, under any circumstances, can be sold out of one of the three major stockpiles regardless of what the Congress wants, and regardless of what the administration wants.

Senator BENNETT. It is incredible to me.

Senator SYMINGTON. Not to be able to sell.

Senator BENNETT. I hadn't realized it.

Senator SYMINGTON. That is the kind of problem we are dealing with. It must be clarified.

Senator BENNETT. That is right. No question about that.

Senator SYMINGTON. Secondly, in 1 week we had three materials, rubber, quartz, and diamond bort, before the committee. One of the ablest men ever to come out of the rubber program, John Collyer of Goodrich, came and testified that since 1951 he had been urging the natural rubber stockpile not be increased; but it has been increased by hundreds of millions of dollars. In that testimony, it came out that justification for the rubber stockpile was that there was one use for natural rubber over synthetic; namely, heavy-duty tires.

But the testimony now is that this new synthetic rubber, stereo, from a petroleum base is at least as good and inexpensive as the natural rubber, for heavy-duty use.

Therefore, the longer we hold the natural rubber, the less chance of getting anything for it, for the taxpayer.

The AID people developed, I thought, a unique approach; namely, they paid for tires in rubber from the stockpile, instead of dollars.

Quartz came up. The Western Electric Co. testified they were making quartz at least as good, and at least as inexpensive, as natural quartz. Ninety percent of the quartz in the stockpile came from one country, Brazil.

If we hold on to this quartz, we may find we have steadily receding value.

The General Electric Co. testified they were making diamond bort today better and cheaper than what can be obtained from natural

sources. Seventy-five percent of our stockpiled diamond bort comes from a single mine in the Congo; therefore, this problem goes beyond the question of copper or lead in his State or my State.

We had a taxpayer write in and say, "I am amazed to read that the Government has a heavy excess of lead when I notice that the Navy is advertising bids for quite a large sum of lead for ballast. Many thousands of dollars are involved."

As soon as we received the letter, counsel took it up with the Navy. They immediately said, "We will be glad to buy the lead from the stockpile, instead of going into the open market."

But we are having bureaucratic problems as to whether or not we can now increase, by a few thousand tons a month, the sale of rubber from the stockpile.

I would appreciate comments from the Senator.

Senator BENNETT. One final comment. The examples the chairman has given, of course, are not involved in the question of the protection of domestic industries. They are involved in what may be an equally serious problem, the protection of our friendships abroad, and this may require just as much ingenuity and careful drafting as anything in the bill to try to protect the American industries.

I think we have to bring the stockpile into balance with our continually reviewed needs.

Hopefully, this can be done with a program that will take a long enough period of time to carry out so that there will be no immediate effects on the market, and if it needs supplementary legislation, legislation to set up safeguards for both our foreign program and our domestic industries, then I would hope that these could be developed so that this particular legislation, standing alone, will not continue to excite and disturb suppliers and have a deleterious effect on either our domestic markets or our friendships abroad.

I am very hopeful that the committee, as a result of these hearings, can develop suggestions which will make this possible.

Senator SYMINGTON. I thank the Senator. He is a member of the committee the chairman of which puts out a notice each month of the extent of the stockpile, its growth, and its value. What I am trying to do is follow the chairman of that committee, one of the ablest and most highly thought of Members of this body, and get a law passed so we can move, in orderly fashion, some of the surplus; and in that way reduce the debt.

I am sure the Senator agrees it is unfair to criticize this administration for not moving surpluses in the stockpile, when in one case the legal opinion is that nothing can be sold; and in another even if we do approve, we have to wait 6 months.

Senator Beall?

Senator BEALL. I was just going to ask, Mr. Chairman, if it wasn't the State Department since 1951 who held up the sale of rubber, rather than the Congress?

Senator SYMINGTON. I believe that a fair statement.

Senator BEALL. It wasn't Congress fault at that time.

Senator SYMINGTON. As the Senator knows, from his business experience, the average trade or deal, if you make it, and then must wait 6 months, that is pretty rough the way business moves in this economy today.

Senator BEALL. If we wanted to sell, the State Department would step in and wouldn't let it be sold.

Senator SYMINGTON. I thought some of the testimony unfortunate from the standpoint of good business practice.

Senator Cannon, have you any questions?

Senator CANNON. No.

Senator BEALL. The same thing with ballast, that wasn't the Congress.

Senator SYMINGTON. It was the Government.

Senator Bush, have you any thought before the witness goes?

Senator BUSH. No, thank you.

Senator SYMINGTON. Thank you, Senator Bennett. We look forward to the opportunity of more discussion with you about this problem. We value your opinion highly.

Senator BENNETT. Thank you.

Senator SYMINGTON. Senator Allott, we welcome you before this subcommittee.

Have you a statement?

STATEMENT OF HON. GORDON ALLOTT, A U.S. SENATOR FROM THE STATE OF COLORADO

Senator ALLOTT. Mr. Chairman, I do.

I think I will conserve time by reading my statement to the committee.

I would like to preface this with just one or two remarks. I am a native Coloradan, and as a native Coloradan I, of course, have always during my lifetime been concerned with minerals.

For the last 6 years I have been a member of the Interior and Insular Affairs Committee, 4 years of which I have served upon the Subcommittee on Mining.

I do not now so serve but I attend all meetings even though I am not a member of that subcommittee.

I appear this morning in opposition to the proposed draft for the stockpile disposal bill. My remarks and concern, while primarily limited to the lead and zinc industry and the effect this bill may have on it, I am sure might be equally applicable to many of the other items in our strategic stockpile.

I am not proposing alternative language, as I am sure the subcommittee will have much information presented to it in this hearing that will serve such an end.

I am merely stating my real concern for the measure as presently drafted. Indeed, there may be some facets of the status quo which could well be changed or modified, such as the present 6-month wait on congressional authority for the Government to sell material from the stockpile. Perhaps this can be lessened, although not to the 30-day period specified in the present bill.

However, the overall plan in the bill for disposals is too broad for our present situation. Realizing the present widespread concern, justified or not, over the size of our stockpiles, I believe authority such as granted by the bill could unintentionally be used unwisely, seriously harming both our Nation's security and our Nation's industries, the latter which are inevitably involved in any disposal of these materials from our reserves.

I wish to emphasize these concerns which I have as they apply to our lead and zinc industry, a field with which I have more than an average acquaintance.

Our present stockpiles in these minerals were put there by the Government over three administrations, both in times of peace and war, and through times of economic prosperity and recession.

Before we contemplate loosely disposing of the same, I believe we need a much more accurate yardstick as to what our needs may be in time of national emergency than we now have. There is a great difference in having a less-than-adequate supply in case of emergency and having a more-than-adequate supply.

The former can be disastrous, the latter, insurance, which is the basic reason for stockpiling in the first place.

At the present time, referring to lead and zinc, we have 1,325,652 tons of lead in the stockpile. The 1961 U.S. consumption is estimated by the Bureau of Mines to have been 1,018,000 tons. So we have just slightly over 1 year's supply for the country in case of emergency. Consider this along with the fact that in 1955 the United States mined 338,000 tons of lead. The figure increased to 353,000 tons in 1956 and then gradually dribbled down to 260,000 tons in 1961.

So there has been a decrease in 7 years from 338,000 to 260,000 in 1961. In 1961, this 260,000 tons represented only 21 percent of the amount of lead used in this country.

Similar figures are available for the zinc industry. There is a present 1,580,057 tons of zinc in the stockpile. Consumption in 1961 was 900,000 tons, or roughly two-thirds of the stockpile.

In terms of years we would have hardly a year and a half's supply at the outbreak of the emergency. Production of zinc has also dropped, from 515,000 tons in 1955 to 425,000 tons in 1960, and up to 467,000 tons in 1961, still roughly only one-half of our national consumption for the same year. Also, the market in any of these stockpiled goods inevitably rises in time of national emergency and war. Consider the fluctuation in the market price of lead and zinc during the Korean conflict. The 1950 market quotation on lead was approximately 13.3 cents per pound. This rose 29 percent to 17.49 cents in 1951, and dropped back again in 1953 to 13.48 cents per pound. The same is true of zinc which marketed for 12.86 cents per pound in 1949, rose 46 percent to a high of 18.75 cents in 1951 and dropped back to 11.53 cents in 1953.

The point is that we must have an adequate stockpile to avoid the necessity of doing business at the end of a gun, so to speak, as regards the prices we must pay for these critical materials during an emergency.

I have just gotten some figures, Mr. Chairman, which illustrate this point to some extent. I can't vouch for the exact accuracy of these figures. They were obtained hurriedly from GSA, but GSA is not putting the force of their staff behind this because they were obtained hurriedly and for that reason they might be subject to inaccuracy.

Tungsten, for example, in 1949, was 22.44. This is a pound. It went up to 26.60 in 1950, 66.44 in 1951, 56.77 in 1952, and then dropped on back down.

Another example of this might be manganese, which in 1950 was selling at 81.8, and went up in 1952 to $1.20.

Another good example might be acid grade fluorspar in which my own State also has a very great interest. We have one of the best deposits of fluorspar in the United States at Northgate, as the chairman knows. It is now completely closed down primarily because of the effect of foreign imports, although there are other factors.

In 1950, acid grade fluorspar $43.50 a ton, that is, a short ton, went up to $60 in 1952, and then started falling back, and I use these two or three other examples of the thing I am trying to illustrate, that I am one of those people who believes implicitly that there is a protection in a stockpile and that we have to have this protection to keep from having a price gun held at our head during times of emergency.

With these figures before me, I know that I am not prepared at this point to stake my country's security on the disposal of all or part of our reserves of these two minerals, and I do not believe we today have the proper yardstick to make such a decision.

With the foregoing as a preface, I do not believe it wise in the interests of national security to grant these broad disposal powers to the President and the Administrator of the General Services Administration, especially with such diminished control over such disposals as the Congress of the United States would then have.

Along with my concern that a too rapid disposal of these reserves could affect our national security and posture to meet whatever emergency may arise, is a concurrent concern over what unwise disposition could do to our national lead and zinc industry.

I have already pointed out how production of both metals within the United States has been and is in decline. There is no real hope that this situation is going to appreciably improve in the near future. Excesive imports have been dealing almost fatal blows to the industry.

Any liquidation of more than a small part of these strategic reserves would have a drastic effect on the U.S. markets and consequently on the mining industry itself. Neither lead nor zinc can afford a further depression of market conditions in the United States.

If other factors ultimately dictate that disposition of portions of the present stockpiles must take place, we must defer such dispositions until steps have been taken by the Congress for the stabilizing and protection of these industries to help them absorb the shocks which must come with such dispositions. They do not have such protection today.

I believe any suggestion that such disposals can be made without these adverse effects on our industries is unrealistic. Inclusions of such provisions and phrases as "disposal at fair market value," and "sales shall be made with due regard to the protection of the United States against avoidable loss and the protection of producers, processors, and consumers against avoidable disruption of their usual markets" will not negate the simple fact of the threat of the disposition pushing the market downward, to say nothing of the actual increase in the market supply at time of disposition, whether at market price or not.

I do not believe it is unrealistic to assume that the primary objective of GSA in these disposals would be to clear the stockpile situation, with only a secondary regard to how such actions would affect the lead and zinc industry. I believe that if a proper yardstick is developed for measuring how large our reserves should be, and if it then

appears inevitable that some disposal be made, I want determination of the method to be used in such disposal to be in the hands of Congress, not in GSA or any other Government agency.

I believe the bill as presently drafted departs too far from these basic considerations and without change, I would be disposed to oppose this legislation.

Senator SYMINGTON. Thank you, Senator Allott.

We appreciate your giving us your thoughts in this matter. We respect your opinion in this field. All we want to do is recommend what is best for the Government and the economy.

The purpose of these hearings was, first, to get this matter into the public domain so there was no element of secrecy involved, any more than necessary from the standpoint of security.

This information is now in the public domain. The second desire of the subcommittee was to find out whether these contracts were in the best interest of the taxpayers.

I am interested that you are a ranking member of the Committee on the Interior.

Counsel observed to me this morning we have not received an answer from Interior to a couple of letters asking explanations of various actions in recent months. If you would utilize your position on that committee to expedite those answers we would be grateful.

Senator ALLOTT. Well, I haven't always had good success myself, Mr. Chairman. [Laughter.]

Senator SYMINGTON. I have seen times when you have been successful.

Senator ALLOTT. I simply am trying to point out here, I do not need to tell the chairman of this committee particularly or Senator Cannon, the dire effects on the lead and zinc industry. To give you some of the—I would like to give you one example and I won't use but a minute to do it.

We earlier this year closed down the Leadville lead and zinc smelter which is one of the oldest industrial plants in Colorado. It is located in the center of the State and at an altitude of 10,500 feet.

It is amazing to note that the disparity in wage rates, et cetera, between here and abroad, is so great that during the plant's last 5 years of operation, up to 30 percent of the ore handled was brought into the country from Canada and South America, to be profitably smelted all the way up in Leadville.

Now, you can imagine what kind of a competition our local miners have and producers have when you can mine lead and zinc ore in a foreign country, transport it from roughly sea level up to 10,500 feet in Colorado and smelt it and still beat local prices.

So, I am concerned about this from all sources, and I have given a great deal of study particularly to the lead and zinc situation over the years, and I do want something to be worked out.

I don't claim any pat answers because reasonable men can differ, for example, on how large the stockpile should be. I am not at all certain in my mind that in the case of lead and zinc that the stockpile is excessive, and this without regard to what the military people say.

Senator SYMINGTON. The able Senators from Colorado and Utah have discussed lead and zinc this morning. I represent probably the largest lead-producing State in the United States.

Senator ALLOTT. I am quite well aware of that.

Senator SYMINGTON. Nobody could have more interest in the future success of the lead and zinc industry than the chairman of this subcommittee, but I do believe we ought to get the facts on the record.

Senator Beall, have you any questions?

Senator ALLOTT. May I just say this, Mr. Chairman, in response to this, I want to underscore again I think that one of the most valuable services this committee could perform would be to try to arrive at some type of yardstick as to what constitutes an adequate stockpile, and it is a most difficult thing, and I just wanted to make that comment.

Senator SYMINGTON. I thank the Senator, and look forward, at his convenience, to discussing this matter with him. All we want to find out is what is best to do.

Senator ALLOTT. I would be very happy to do that.

Senator SYMINGTON. Senator Beall?

Senator BEALL. I have one question.

Knowing the Senator from Colorado's interest in this industry, assuming that after setting proper objectives it is found they are surplus to the stockpile, what would the mining industry think of an announced long-range disposal program of definite stages through, say, 5 or 7 years.

Senator ALLOTT. There are several factors you would have to take into consideration on that and you would have to begin at the point we just left, what constitutes an adequate stockpile in the case of national emergency.

Now, this gets into a lot of questions.

I am not one of those who is chiefly concerned with pushbutton wars and I think it is fully possible, Senator, in reply to your question, to begin with, that we may have a protracted period of emergency in which our stockpile might be a necessity.

I do not know what the official position of the mining industry is because there are so many segments of it.

My own feeling is that having determined what is an adequate stockpile, then a disposition of the excess over a period of time with a great deal of emphasis on what it is doing to the national industries, would not be objectionable. I would like to have Congress, if possible, to have a control over this, preferably an affirmative control, although in this instance I would not object to a control by the President with a notice in excess of 30 days if the veto power was left to the Congress under the Administrative Procedure Act although this is less preferable, in my opinion.

Senator BEALL. Thank you.

Senator SYMINGTON. Senator Thurmond?

Senator THURMOND. We are delighted to have the able Senator before the subcommittee.

I am just wondering if he had had the opportunity to study carefully this proposal of the chairman of the subcommittee, Senator Symington?

Senator ALLOTT. Are you speaking of the bill?

Senator THURMOND. Yes, I am.

Senator ALLOTT. Yes.

Senator THURMOND. Did your statement cover your suggestions with regard to this bill fully or is there anything else you would like to say?

Senator ALLOTT. Not fully.

What I have tried to point out in my statement more than anything else, are the areas of weakness, the indefiniteness, for example, of any yardstick for the stockpile, the time, and my own preference that Congress keep active jurisdiction over the disposal rather than placing that in the President or in a governmental agency. These are the things which I think are the guts of the real question here, and I don't envy the committee its job in trying to arrive at standards by which to do this.

But this is, I think, what has to be done first, before justice can be done to the industry, and national interest protected.

Senator THURMOND. Thank you.

Senator ALLOTT. Thank you very much.

Senator SYMINGTON. Senator Bush?

Senator BUSH. Yes, Mr. Chairman.

I would like to ask the able Senator to go back to his comments about foreign imports for a moment.

I was interested in the fact that they concerned lead imported from Canada and South America to your smelter and it can be smelted at that high altitude cheaper, considerably cheaper than domestic lead can be smelted there or anywhere else, is that right?

Why is it?

Senator ALLOTT. I don't have their exact figures, but they operated for several years on this and I know they wouldn't have been importing and transporting this lead up to 10,500 feet, which is an expensive transportation process if it had not been cheaper.

Senator BUSH. Why is it that lead from a foreign country can be imported more favorably than we can mine it ourselves?

Senator ALLOTT. There are undoubtedly many factors, but not the least important and the most important single factor is the high disparity of wage rates between the countries which import lead into this country, and our own wage rates.

Our own miners draw around, I don't have any recent figures on this, but around $22 a day, and the wage rates in the rest of the world, in South America, and Africa, and Europe, run down as low as 75 cents; 85 cents a day.

We had some hearings in the Interior Committee on this in 1959 and the exact figures do not recall themselves but it is the great disparity of wages and living standards that makes the difference.

Senator BUSH. There is no adequate protection through tariff or quota against this extensive import of lead?

Senator ALLOTT. There is no adequate protection, and I might say for those advocates of free trade that all of the hearings that we have had over a period of the last 6 years in the Interior Committee, have convinced me that in the area of metals the trading with foreign countries is not performing the desired function of free trade.

In South America the money is going primarily either to big owners or to the government which owns the mines, and so the beneficiaries are the same ruling class, the government itself, the governmental cliques, or the rich people. The desired end of free trade to enrich the lives of the average man in the street is not being accomplished to an appreciable extent, so that he might become a customer for our products.

Senator BUSH. Mr. McDermott, the Administrator of the OEP, is that his title——

Mr. COBURN. Yes.

Senator BUSH (continuing). Testified yesterday before the Banking and Currency Committee, and he said that they are working on these estimates of, revised estimates of, what sort of a stockpile we should need, based on the more modern conception of the kind of a war we might be engaged in, and he said they would not have these estimates made until the end of the year.

Would you think it would be well for this committee to defer action on a bill of this kind until we had those estimates in hand?

Senator ALLOTT. Well, I don't know whether this committee could arrive at an independent finding without the benefit of those, but I believe that this is the first thing that this committee has to decide in order to pass a good bill, and those would, of course, be of very great help.

If necessary, I think it should even be deferred, but I believe this is the beginning of the solution of this matter.

Senator BUSH. I have no further questions.

Senator SYMINGTON. Let me say to the able Senator from Colorado, I have watched this badminton game with respect to the various stockpiles for many years, and would hope we are not going to appoint any more boards, commissions, or committees to consider this matter of the stockpile legislation.

We are going to get people like you down here and go ahead and do our best to get some legislation out.

We have been trying for years to get some legislation out with respect to the stockpile. This time we are going to come up with some legislation and put it before the Senate.

Senator Cannon?

Senator CANNON. I thank the chairman.

With reference to your statement on the smelting of the lead, just the thought there, a question raised in my mind is as to whether or not your smelting company actually owned the lead mines in Mexico from which they were importing?

Senator ALLOTT. I don't believe they did.

Senator CANNON. I know that is true in some places in the country, that the mines are actually owned and operated by local owners here, and the ores are being brought in from outside of the country.

Senator ALLOTT. It is true, Senator, we have had in this particular area of lead and zinc, numerous interests. You have the small producers, you have the people who are just large producers, you have people who are simply importers and fabricators and then you have people who are both producers and importers, and who own mines abroad, so you have all of these various conflicts of interest, which have made it very difficult to arrive at any legislation that would help these people.

The fact is I quoted that as an extreme example, the fact is whether they owned the mines or not they wouldn't have been doing this unless the costs of production were so much askew with our own costs.

Senator CANNON. Or they were mining a higher grade ore.

Senator ALLOTT. Well, I would doubt that it would be significantly higher.

Senator CANNON. In some instance, I think the record shows that the ores are considerably of higher grade that are being mined in some of these foreign countries than this comparable type of ore.

Senator ALLOTT. In some instances.

Senator CANNON. In reference to this 6-month period, do you think the 6 months' waiting period is realistic in the present law?

Senator ALLOTT. No, I said that in my statement, perhaps, this is too long.

Senator CANNON. There should be some realistic change made in that respect?

Senator ALLOTT. Yes, but I don't think that 30 days are sufficient.

Senator CANNON. You referred to Congress having the power of veto. Do you think that if a notice, a provision of the law required a notice to the Congress and then a set period of time in which Congress might have to act to exercise veto power, would that be more in line with your thinking?

Senator ALLOTT. No. My first choice would be to have Congress have affirmative power and keep the power to dispose of this.

But this would be the minimum, a veto of any Executive decision under the Administrative Procedure Act and this would be the very minimum which I would want to settle for and I would prefer not to have it.

Senator CANNON. I am sure the Senator is aware of what has transpired in the past as far as Congress is concerned and if Congress has affirmative power we are not going to get anything done in this area within a reasonable period of time simply because the processes up here take a long time to be accomplished, and therefore, if a desire to dispose of something is indicated, the market might well be gone, as the chairman of this committee indicated earlier, before the decision is made up here in the Congress.

Senator ALLOTT. This is a practical situation.

Senator CANNON. And doesn't the Senator agree that is a rather time-consuming process to require affirmative action on the part of Congress?

Senator ALLOTT. There is a practical effect and it is a time-consuming process. On the other hand, I can't ignore the fact that we were all elected to do just this.

Senator CANNON. Well, wouldn't you be exercising the same control by the exercise of the veto power. It would just figuratively speaking, require Congress to get off the dime.

Senator ALLOTT. Not exactly, Senator, because under the so-called veto power which is referred in this way under the Administrative Procedure Act, and I do not have it with me at the moment, your chances are very limited.

If the chairman of the committee or the subcommittee to which a resolution of veto would be referred, did not hold committee hearings, you go to the floor of the Senate without any adequate record to present your case.

You do have an opportunity to bring it up on the floor of the Senate. But you do not, unless hearings are held, you cannot go there with an adequate record, you have no opportunity to cross-examine witnesses,

and you are pretty much out in the cold. So it has its distinct disadvantages as well as its advantages.

Senator CANNON. I thank the chairman.

Senator SYMINGTON. Senator Allott, again thanks for appearing and giving us the benefit of your thoughts.

I appreciate your saying you thought the 6-month period was too long, and am much impressed with some of the thoughts you have incident to the participation of the Congress.

What we hope to do in these hearings is to develop some procedure so this matter can be handled in a businesslike way.

It has become clear the stockpile has been utilized as an instrument of foreign policy.

I don't think that should be done; and they presented to the people that the purchases in question were necessary for defense mobilization.

Senator ALLOTT. Well, I am sure that only a completely objective approach to this can solve it. It is a most difficult thing and I realize it. I have been in other facets, not so much the stockpile facet, but in other facets of it over a period of years.

I do want to thank the distinguished chairman and members of the committee for permitting me to appear here this morning.

Senator SYMINGTON. It has been a privilege to see you.

Now, Mr. Counsel, we have additional witnesses, is that correct?

Mr. COBURN. Yes, we do, Mr. Chairman.

Senator SYMINGTON. Call the first witness, please.

Mr. COBURN. Mr. Joseph H. McConnell, please.

Senator SYMINGTON. Mr. McConnell, it is a pleasure seeing you this morning.

Mr. MCCONNELL. It is a pleasure, sir.

Senator SYMINGTON. You have two gentlemen with you. Will you identify yourself and the gentlemen in question?

Mr. MCCONNELL. Yes, sir. My name is Joseph H. McConnell, I am executive vice president and general counsel of the Reynolds Metals Co. I have with me, on my right, Mr. Gustav Margraf, vice president and general solicitor of Reynolds Metals Co., and on my left, Mr. Maxwell Caskie, assistant vice president, Reynolds Metals Co., and Washington representative.

Senator SYMINGTON. It is the custom of this committee to have sworn testimony. Will you stand and raise your right hand, please?

Do you swear the testimony you give this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MCCONNELL. I do, sir.

Senator SYMINGTON. Be seated.

Proceed, Mr. Counsel.

Mr. COBURN. Mr. McConnell, I believe you have a statement, a written statement that you would like to give to the committee and you have provided us with a copy of that statement.

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. Will you proceed, then, in your statement?

STATEMENT OF JOSEPH H. McCONNELL, EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL, REYNOLDS METALS CO.

Mr. McCONNELL. Thank you, Mr. Coburn.

In my testimony I will discuss the suggestions which Aluminum Co. of America, Kaiser Aluminum & Chemical Corp., and Reynolds Metals Co. have made to the Office of Emergency Planning for disposal of surplus stockpile aluminum, and I believe my remarks in general will reflect the views of those three companies.

I would like to make it clear that I am discussing stockpile disposal policy only as it relates to the aluminum industry. Each industry has problems peculiar to it.

For example, the aluminum industry does not have the problem of obsolescence. It does not have the same problem of fluctuating daily prices that many commodities have. It is an industry with an increasing national demand. It has entirely different marketing problems from many of the materials in the stockpile. For these reasons we think it would be somewhat presumptuous of us to suggest remedies for the disposal of stockpile surpluses as they relate to other industries.

I believe it would be useful for the records of these hearings to include a brief statement of the circumstances under which the aluminum stockpiles were created.

A small part of the aluminum was acquired for the national stockpile before the Korean war principally through transfers from various Government sources pursuant to the Strategic and Critical Materials Stock Piling Act of 1946.

The major part of the metal in the stockpiles was accumulated pursuant to contracts entered into by the Government and producers under the Defense Production Act of 1950 to increase the Nation's aluminum production capacity.

It was contemplated that the first demand on this new capacity would be for current needs. Excess metal would be shifted from the Defense Production Act inventory to the national stockpile.

Immediately before the Korean crisis aluminum was in ample supply. Shortages developed after the conflict began. The National Security Resources Board, which was in charge of the program at that time, was familiar with the problems encountered by the Government in the construction and disposition of temporary World War II plants.

The Board determined to find a way to expand aluminum production capacity without committing Federal funds to construction of additional aluminum plants.

The Government's primary purpose at that time was to provide for enough aluminum to meet emergency needs. It sought also to assure the nonintegrated fabricators of a long-term supply of primary aluminum without any obligation on their part to buy the metal.

Finally, the Government wanted to accomplish these objectives through permanent additions to the Nation's aluminum capacity and to do it with the funds coming from private sources.

In October 1950, the Government announced to representatives of the three domestic primary producers, Alcoa, Reynolds Metals, and Kaiser, and to prospective producers, an immediate need for an overall aluminum expansion program.

As of that time the total U.S. primary capacity was 725,000 tons. The expansion ultimately carried out was about 832,000 tons, or more than 100-percent increase in capacity.

The primary producers agreed to undertake the requested expansion even though an immediate increase of this scope could not be justified by the most optimistic market estimates.

Senator BUSH. Mr. Chairman, at the top of page 4, is that right, is it 100-percent increase?

Senator SYMINGTON. The Senator and I have the same problem.

Mr. MCCONNELL. It is an increase of more than 100 percent.

Senator BUSH. I see that.

Senator SYMINGTON. But the way it reads you might read it as an increase from 725,000 to 832,000.

Mr. MCCONNELL. I am sorry, it should indicate an increase of 832,000 tons to more than double the capacity.

Senator BUSH. I understand.

Mr. MCCONNELL. The primary producers agreed to undertake the requested expansion even though an immediate increase of this scope could not be justified by the most optimistic market estimates. Under these circumstances funds to finance the expansion could be raised from private sources only with assurances that the metal could be absorbed or disposed of in 5 years.

The Government recognized this and gave the producers the right to "put" to it for 5 years the production from the expanded capacity which they did not require and were unable to sell.

The Government also reserved the right to "call" on the producers for the full production, or as much of the metal as it wanted.

In the contracts the primary producers were required to agree that for the first 5 years, two-thirds of the metal produced from the additional facilities, less what the Government bought, would be offered for sale to companies in the aluminum business which are not primary producers.

For an additional period of 15 years the primary producers were required to offer to the nonintegrated users a quantity of metal equal to one-fourth of the production from the additional facilities. While the producers were obligated to offer the metal to nonintegrated users. the nonintegrated users, had no obligation to buy any of it.

In 1957, the contracts were amended to increase to 35 percent the percentage of the output from the additional facilities reserved for nonintegrated users. The amendments also raised the minimum grade of aluminum which could be supplied to the Government from 99 to 99.3 percent and required the average grade to be at least 99.6 percent.

At the same time the producers extended the time for payment by the Government for the metal purchased under the contracts.

The objectives originally established by the National Resources Board were achieved under the aluminum expansion program. Mobilization readiness was accomplished and permanent additions were made to the Nation's aluminum capacity without using Federal funds.

A supply of primary metal was assured to nonintegrated fabricators for a long period of years, with no obligation on their part to buy the metal.

As a result of this program approximately 2 million tons of aluminum were accumulated in the stockpiles. A little more than half was delivered on "calls" by the Government; the rest became Government property under the "put" provisions of the contracts.

It is not known now how much of the aluminum in the Government's stockpiles will be determined to be surplus. A figure of 729,000 tons has been used, based upon a 3-year emergency period.

However, we understand that military and rehabilitation requirements for aluminum are still under study in the executive department.

The Office of Emergency Planning informed the Senate Banking and Currency Committee yesterday that its target date for completion of a supply requirements study is the end of 1962.

We recognize that such a study is extremely complex, and are sympathetic with the difficulties of determining whether, and in what amount, a surplus of aluminum exists in the stockpiles.

While it may be premature therefore to make detailed proposals for disposing of surplus aluminum before the requirements for aluminum have been determined, we have felt it would be helpful to suggest the framework of negotiations under which the Government's objectives could be achieved without disrupting the industry's employment, production, marketing and financial planning.

The aluminum industry is in a unique position compared with other industries which have contributed to the stockpiles. The market value of aluminum referred to this year as possibly surplus is the second largest of all the materials in the stockpiles. The aluminum industry is still a growth industry, with periodic fluctuations in the balance between demand and supply, and should be permitted to continue to grow without disruption from the effects of accumulated supplies being thrust upon, or overhanging, the market.

With these considerations in mind the three primary producers who contributed most of the aluminum to the stockpiles, Alcoa, Kaiser, and Reynolds Metals, have suggested a procedure for disposing of surplus stockpile aluminum. Other producers, of course, are welcome to participate.

The three companies recommend that the Government negotiate with the primary producers an agreement for the producers to purchase the surplus aluminum in whatever amount it may be determined to exist.

Negotiations are suggested within the following framework—

1. That the several purchase commitments of the contracting parties should add up to an obligation to buy back the entire surplus;

2. That the repurchase price should be based upon market prices in effect at time of shipment;

3. That there should be no windfall profits;

4. That the repurchase contracts should be extended over whatever period of time is reasonably necessary to effect the use or

resale of this metal without serious disturbance to employment or the market;

5. That those who enter into such contracts should commit themselves to make available for resale a substantial portion of such purchased stockpile metal, possibly 35 percent;

6. That such premium quality metal as may be in the DPA stockpile should be transferred to the strategic stockpile.

These suggestions are contained in a letter dated June 20, 1962, from Mr. Leon Hickman of Alcoa to the Office of Emergency Planning. The letter elaborates on each of the suggestions and rather than repeat them here I submit the letter to the committee as a part of my statement.

Finding a solution to the problem posed by existence of a surplus in our national stockpile is not easy, and we trust that we are being constructive in our proposals for the aluminum industry. We believe that a solution in the public interest can be found for the aluminum industry within the general framework of negotiations recommended by the three aluminum producers.

The advantages of liquidating the surplus as we recommend are as follows:

1. Risk of curtailment of operations of the industry's existing plants would be minimized.

2. Unemployment in the aluminum industry would not be increased.

3. There would be no necessity for the Government to take upon itself the burden and hazard of determining the price of the metal.

4. The Government would be relieved of the complex and expensive process of disposing of the surplus, for which it has no facilities or organization.

5. The Government would be assured once and for all of the disposition of the entire surplus.

6. All producers would have an opportunity to participate in the disposal program.

7. Nonintegrated users would be assured of an additional supply of aluminum for a period of years.

8. The industry would have every incentive to take the metal as quickly as possible. The faster the surplus can be absorbed, the sooner the industry can return to selling their own metal at a normal profit.

9. Orderly disposal of a surplus would permit better planning for the economic growth the industry foresees for its metal. Lack of orderly disposal of a surplus makes such planning impossible.

The program which we have suggested would take care of any surplus in the aluminum stockpiles. We therefore recommend the following:

1. That the Defense Production Act be amended (*a*) to permit the Government to enter into contracts for sale of surplus materials over such period of time as is deemed appropriate to accomplish the objectives of the disposal program and (*b*) to permit interchange of metal between the national, supplemental, and DPA inventory stockpiles for the purpose of retraining the best grade metal in the national stockpile.

Which I think is really a little wrong there. I think it is an amendment to the Stockpile Act rather than the Defense Production Act.

These amendments would permit adoption of the disposal plan which the aluminum industry has proposed.

2. That the appropriate Government agencies proceed immediately to negotiate with the aluminum producers looking toward purchase by them within the general framework of the proposal we have made of as much of the now stated surplus of aluminum as the agencies determine should be disposed of.

We realize that the present studies of the requirements, and thus the surplus, of aluminum have not been completed.

However, we believe that from all the facts we now know a reasonable assumption would permit the consummation of a contract along the lines proposed which would ultimately lead to a complete disposition of any surplus.

The agreements would provide that in the event final determination of the requirements results in a revised surplus figure, appropriate adjustments would be made in the contracts.

3. That the bill under consideration, or discussed really, be revised to provide that it will not be applicable to materials of any industry which has offered a reasonable plan for repurchase of the materials from the Government at not less than prevailing market prices at the date of shipment.

If the above recommendations are not acceptable then we recommend:

1. That the studies now being made by the Office of Emergency Planning to determine aluminum stockpile requirements should be completed as quickly as possible and before any disposal plan is adopted.

2. That there should be no piecemeal disposals from the aluminum stockpiles until the Government's overall disposal policy is determined, and perhaps Congress should so state.

Thank you, sir.

(The letter referred to follows:)

ALUMINUM CO. OF AMERICA,
Pittsburgh, Pa., June 20, 1962.

Re surplus aluminum in Government stockpiles.

OFFICE OF EMERGENCY PLANNING,
Washington, D.C.

GENTLEMEN: This is written to confirm the substance of a conversation that Mr. Joseph H. McConnell, executive vice president and general counsel of Reynolds Metals Co., and I had with you a few weeks ago concerning the ultimate disposition of any aluminum in the Government stockpiles that might be found surplus to currently estimated military or rehabilitation needs.

We called on you on the assumption that 729,000 tons of such metal (almost entirely in ingot form and held at an inventory cost of approximately $350 million) was currently considered surplus because of revised strategic concepts. However, you advised us that military and rehabilitation requirements for aluminum were still under study in the executive department and that it would probably be 3 or 4 months before the study would be completed and determination made of whether, and in what amount, a surplus of aluminum exists in the Government stockpiles.

It is premature, therefore, to discuss any detailed suggestions for disposing of surplus aluminum until its existence and amount is determined. Nevertheless, it may be helpful to Government planning to put before you the framework of a program within which several of the domestic primary aluminum producers are willing to negotiate an agreement to purchase the surplus aluminum in whatever amount it may be determined to exist. When Mr. McConnell and I called on you, we spoke for Reynolds Metals Co. and Alcoa, respectively. Mr. Eugene E. Trefethen, Jr., vice chairman of the board of Kaiser Aluminum & Chemical

Corp., would have been with us had his engagements permitted, so it may fairly be assumed that the suggestions here summarized state the position of the three largest domestic integrated producers of aluminum. We will welcome the additional participation of any other producer of aluminum if we reach the point of negotiating a disposal agreement with the Government.

We suggest negotiation within the following framework—

(1) That the several purchase commitments of the contracting parties should add up to an obligation to buy back the entire surplus.

(2) That the repurchase price should be based upon market prices in effect at time of shipment.

(3) That there should be no windfall profits.

(4) That the repurchase contracts should be extended over whatever period of time is reasonably necessary to effect the use or resale of this metal without serious disturbance to employment or the market.

(5) That those who enter into such contracts should commit themselves to make available for resale a substantial portion of such purchased stockpile metal, possibly 35 percent.

(6) That such premium quality metal as may be in the Defense Production Act stockpile should be transferred to the strategic stockpile.

A few comments on the foregoing premises may be helpful.

1. *The several purchase commitments of the contracting parties should add up to an obligation to buy back the entire surplus.*—This is to the advantage of the Government because the aluminum producers are probably the only ones in a position to make such commitments. However, it is equally to the interest of the aluminum producers because the only alternative appears to be to have the metal marketed by the Government in competition with current production and at the expense of maintaining current operations and employment. This hard alternative exists whether the Government markets the aluminum directly or requires those who sell aluminum products on Government contracts to use, or at least purchase, stockpile metal as part of the transaction.

Those who contract to repurchase surplus stockpiled aluminum should be willing, among them, to acquire the entire surplus, although we prefer that there be several contracts aggregating this total rather than a single contract with the industry. It is the thinking of Alcoa, Reynolds, and Kaiser that the parties should repurchase in substantially the proportions that they contributed to the stockpile. We would expect the fourth domestic producer who has furnished aluminum to the stockpile to join in repurchasing its share of the surplus and would be hopeful that those foreign producers who participate in the American market would also join in this undertaking. We understand that there is some foreign aluminum in the stockpile.

2. *The repurchase price should be based upon market prices in effect at time of shipments.*—We believe this to be a requirement of existing law. In any event, it is the best possible guarantee that the stockpile metal will be acquired by the purchasers at no discount from full market price. Indeed, each aluminum producer is in the position of substituting this purchase at full market price for aluminum ingot that it could have made in its own smelter at a normal profit.

It has been suggested that the Government should not sell at the market price because the aluminum producers control that price. This assumption is untrue, as aluminum markets of the last decade have strikingly demonstrated. Market prices are determined by competitive market forces and are beyond the control of any producer or all of them. But were it otherwise, no aluminum producer would have any incentive to lower the market price when buying stockpile metal because, on balance and by a large ratio, each producer is a seller rather than a buyer of aluminum ingot.

3. *There should be no windfall profits.*—This will be easy to insure because every pound of stockpiled aluminum which a producer buys at market price displaces a pound of ingot aluminum which it would otherwise have manufactured at a normal profit. Indeed, the purchase of stockpiled metal by the producers will be one vast headache to them for they will probably be unable to sell the metal in competition with new furnaced aluminum and will probably have to work it off in their own operations, with costs and complications later described.

4. *The repurchase contracts should be extended over whatever period of time is reasonably necessary to effect the use or resale of this metal without serious disturbance to employment or the market.*—It is impossible to estimate how much time should be allowed for the completion of the purchase contracts

until the extent of the stockpile surplus is determined by the executive department. When that determination has been made, a reasonable period within which to dispose of the surplus will involve the following factors, among others:

(*a*) We are probably talking about purchase obligations that will exceed $300 million.

(*b*) Enough time must be given to minimize disruption of employment and existing production schedules. The domestic aluminum industry is already confronted with a productive capacity far in excess of existing markets. The primary aluminum productive capacity in the United States as of December 31, 1961, was approximately 2,484,000 tons, with another 172,000 tons scheduled to be completed by the end of 1963.

These capacities are to be contrasted with production of 2,014,498 tons in 1960, 1,903,713 tons in 1961, and 505,266 tons in the first quarter of 1962. This imbalance of domestic productive capacity, when measured against existing market demand, is further aggravated by increasing imports of foreign metal. Canadian productive capacity alone is 878,000 tons and is in the process of being enlarged to 1,013,000 tons.

To whatever extent stockpile metal is taken out of the stockpile, the aluminum industry will be forced to idle potlines and either lay off or fail to recall workmen who would otherwise have jobs. It therefore seems fundamental that a contract to buy stockpile aluminum should be of such length and flexibility that the producers would not be required to withdraw metal until needed by markets in excess of their existing production.

(*c*) The condition of the stockpile aluminum will tend to slow up the utilization or resale. Much of the stockpile metal is 99.3 percent aluminum, the standard specification when the stockpile contracts were negotiated, but well below current market specifications of 99.5 percent aluminum or better.

Furthermore, today's aluminum ingot is furnaced metal, which means that after being tapped from the pots, it is placed in holding furnaces, blended, in some cases fluxed and in all cases skimmed for the removal of impurities and bath inclusions, which are present to some extent in pig not so furnaced. In contrast, it was the practice when most of the stockpile was accumulated, to tap metal directly from a smelting pot and cast it into a pig mold without the intervention of a holding furnace, the result being that a customer having the choice of today's furnaced ingot or yesterday's direct cast ingot would not accept the latter if he had a choice.

The stockpiled ingot has been stored outdoors with the result that it has been oxidized to some extent and has accumulated dirt, moisture, and various contaminants, a condition that can be cured at some expense by remelting and fluxing, or partially cured by scratchbrushing. Fortunately, the Government purchased much of this metal at prices below today's market. Short of such procedures, the utilization of stockpile ingot will result in high melting losses or the complication of additional impurities when the metal is used.

It is probable that if the primary aluminum producers purchase such stockpile metal, they will have to work it off in their own production in combination with today's better metal. It is unlikely that other purchasers can be found for any substantial part of the stockpile metal in its present condition.

These factors suggest that the purchasers should be given sufficient time to enable them to work off much of the stockpile metal in their own operations while selling newer and better metal to their customers.

5. *Those who enter into such contracts should commit themselves to make available for resale a substantial portion of such purchased stockpile metal, possibly 35 percent.*—The contracts under which the stockpiles were accumulated required the contracting parties to make 25 percent of their production from contract plants available to nonintegrated industry. By amendment, this was raised to 35 percent. It would, therefore, appear both equitable and politically satisfactory to require a purchaser of stockpile aluminum to make available 35 percent of its purchases to other users of the metal. Certainly the aluminum producers have every inducement to make stockpile metal available to anyone who wants it, for as soon as it has been marketed, the procedures can return to selling their own metal at a normal profit.

In reality the quality of current production is so much more satisfactory to the consuming industry than stockpile metal that the contracting parties would probably absorb the stockpile metal in their own captive production and release an equivalent tonnage of new metal to the trade.

6. *Such premium quality metal as may be in the DPA stockpile should be transferred to the strategic stockpile.*—This is recommended purely for purposes of maximum defense utilization. The reasoning behind the recommendation is obvious.

This leter is not submitted as a proposal by Alcoa, nor the three integrated aluminum producers previously named. It simply reflects some thinking from the standpoint of three of the producers who would be called upon to market a large amount of metal in competition with their own production. The problem is difficult but we believe it is capable of solution if everyone keeps in mind the general public welfare in liquidating this stockpile in such manner that normal markets are not disrupted nor production curtailed to the point where plants are closed in whole or in part and men displaced from employment.

Respectfully submitted.

LEON E. HICKMAN,
Executive Vice President.

Senator SYMINGTON. Thank you, Mr. McConnell. This is as constructive a presentation as the committee has had from industry since we have been looking into this matter.

The price of aluminum on the 1st of January 1962, was 24 cents a pound. And the price of aluminum on the 21st of June 1962, was 24 cents a pound. Has there been any change since then?

Mr. MCCONNELL. No, sir; but it is still too low, I might say. [Laughter.]

Senator SYMINGTON. I always like to hear a good free enterpriser. [Laughter.]

If we can work it out as we want, these hearings in themselves will not have any negative reaction on the aluminum industry.

I congratulate you and the aluminum industry for your work in the past and your recommendation today.

You mentioned the increase in capacity. You have pretty well utilized that increase in capacity, have you not?

Mr. MCCONNELL. Well, we did for a while, Senator, as you know, most of it at least. We have had some recent increases in capacity since the 1950 expansion and we have not utilized all that, but generally speaking, yes, we have utilized on a commercial basis most of the capacity.

Senator SYMINGTON. There is another large producer of aluminum, is there not, beside the three mentioned?

Mr. MCCONNELL. There is a large North American producer in Canada: Aluminium, Ltd.

Senator SYMINGTON. How about Harvey?

Mr. MCCONNELL. Yes, I didn't mean to leave out Harvey. They are not as large as the other three, certainly they are in this; and Anaconda, too.

Senator SYMINGTON. They are not associated with you in the three companies that made the presentation?

Mr. MCCONNELL. They have not been. We would be delighted to have them associated with us and any other producer who wants to be.

Senator SYMINGTON. Have you suggested they do become associated with you?

Mr. MCCONNELL. I can't remember, to be honest with you, whether Mr. Hickman has done that or not.

Senator SYMINGTON. Will you get in touch with them and see if they would like to participate?

Mr. MCCONNELL. I certainly will, sir.

Senator SYMINGTON. Your plan might have more basic merit if you included all members of the industry in this country.

Mr. MCCONNELL. We also have Olin Mathieson and Revere and we would be delighted to do that.

Senator SYMINGTON. You would do that?

Mr. MCCONNELL. Yes. They, of course, have no metal as I recall in the stockpile.

Senator SYMINGTON. Harvey has sold to the stockpile, have they not?

Mr. MCCONNELL. Oh, yes, sir, they have, and, therefore, they would be interested perhaps in the plan. We would be delighted to invite them.

Senator SYMINGTON. Perhaps I know the answer, but I would ask, No. 6 on page 8, you recommend that such premium quality metal as may be in the DPA stockpile should be transferred to the strategic stockpile?

Will you give the reasons for that suggestion?

Mr. MCCONNELL. Yes, sir. As the metal was put into the various stockpiles, the earlier metal was put into the strategic stockpile, and the later metal was put into the DPA and that is a little bit higher grade metal in the DPA than strategic stockpile and I think that in the interests of the Government's position they should have the better quality metal.

Senator SYMINGTON. Is that the only reason?

Mr. MCCONNELL. That is the only reason I know about, yes.

Senator SYMINGTON. I asked because, as you know, it is easier to sell out of the DPA stockpile than out of the——

Mr. MCCONNELL. We do not contemplate reducing the DPA stockpile. We just want an interchange so they have the same amount of metal and it can be sold under DPA.

Senator SYMINGTON. I understand.

Mr. MCCONNELL. We are not suggesting you change DPA but merely an interchange——

Senator SYMINGTON. I understand.

On page 11 you refer to studies now being made by the Office of Emergency Planning to determine aluminum requirements. If there are going to be changes in the stockpile requirements they will be studied carefully by this committee. There may be reasons for increase. The department that has the most interest from the standpoint of defense is the Defense Department. We had a witness from State who didn't see any reason, under modern conditions of possible aggression, to have a stockpile so that should be also considered. I would hope the idea does not get out that we are going to handle this stockpile problem by increasing the objectives.

There have been two other industries in addition to aluminum that have approached the committee with thoughts of repurchasing, handling what is considered excess.

Have you any comments?

Mr. MCCONNELL. Yes, thank you, Senator.

What we are trying to say there is we agree with that. We think we should proceed to negotiate right now for the disposition of whatever the surplus is now, and we think that can be done. We don't think we should wait for the determination.

As a matter of fact, I don't think these various governmental agencies are waiting. They are disposing of the metal or trying to dispose of it from time to time in various ways now.

We think if they can do that we ought to talk about the plan which we have proposed and take care of the whole surplus at one time. We agree with your conclusion on that, sir.

Senator SYMINGTON. Stockpiling is especially important when you do not have much available source of supply in this country.

With that premise, it is true, is it not, there are no deposites of high grade bauxite in the United States?

Mr. MCCONNELL. Yes, sir, not to any extent.

Senator SYMINGTON. Is that also true of Canada?

Mr. MCCONNELL. Yes, sir.

Senator SYMINGTON. And Mexico?

Mr. MCCONNELL. Yes.

Senator SYMINGTON. We understand that, different from some other ores, stockpiles of bauxite improve with age instead of deteriorating.

Do you know the facts?

Mr. MCCONNELL. Yes, sir, in general. We certainly know that it does not deteriorate, and we have one school of thought in our company and elsewhere in the industry, of the fact that out in the open, where the rain falls on it, it has a tendency to take out some of the impurities through age. Whether or not that is true I am not quite certain, but in any event we know it does not deteriorate.

Senator SYMINGTON. Thank you, Mr. McConnell.

Senator Beall?

Senator BEALL. Thank you, Senator.

Mr. Chairman, did you say there were other companies interested in purchasing? Is that confidential information? Do you want to put it in the record?

Senator SYMINGTON. I think there is one company that has had large stockpile relationships with the Government. I thought they might want to join with these three other companies. I mentioned the name of Harvey.

Senator BEALL. I think it would be, and there were two others you said?

Senator SYMINGTON. No, but I think Mr. McConnell mentioned two.

Mr. MCCONNELL. They haven't any metal in the stockpile, but Olin Mathieson and Revere are now producers of aluminum, and Anaconda.

Senator SYMINGTON. Inasmuch as these other three companies have never had any relationship with the Government stockpile they probably wouldn't be as interested as ones who did; is that a fair surmise?

Mr. MCCONNELL. Yes, sir, that is correct, I think.

Senator SYMINGTON. Senator Beall, have you any other questions?

Senator BEALL. I understood you to say counsel had been approached by two other industries.

Senator SYMINGTON. That is correct; molybdenum and nickel.

Senator BEALL. I just wondered about that.

Senator SYMINGTON. I thought you were talking on aluminum.

Senator Thurmond?

Senator THURMOND. Mr. Chairman, I have no questions. I would like to commend Mr. McConnell on his statement.

Mr. McCONNELL. Thank you, sir.

Senator SYMINGTON. Senator Bush?

Senator BUSH. When did you make this proposition to the OEP for the disposal of the surplus?

Mr. McCONNELL. We made this June of 1962, June 20, 1962.

Senator BUSH. Very recently.

Mr. McCONNELL. Well, we put it in writing very recently, Senator Bush, but we have been discussing with them for quite a while.

Senator BUSH. What is the annual consumption of aluminum now?

Mr. McCONNELL. It is approximately in the general neighborhood of 2 million tons of the primary metal produced by the primary producers. We have imported metal, and scrap which runs it up to somewhat over 3 million tons, maybe 3,300,000 tons.

Senator BUSH. If I read this correctly, the domestic capacity for producing aluminum would be of the order of 725,000 plus the 832,000, or a million and a half tons?

Mr. McCONNELL. No, it has been increased since then.

Senator BUSH. It has been increased?

Mr. McCONNELL. It is about 2,400,000 tons.

Senator BUSH. So there is a need for importing aluminum.

Mr. McCONNELL. No, there is no need right now. We have too much capacity as of now.

Senator BUSH. You spoke of consumption at the rate of three million.

Mr. McCONNELL. Well, the consumption is made up of a substantial amount of scrap. We could supply, the domestic producers could supply today, most of the aluminum that is required in the country. Some from Canada, which is a normal importation and has been for many years, we would expect to continue.

Senator BUSH. And you thought in making this proposal to OEP was regardless of legislation they are in position now if they can determine the amount of surplus they want to sell to make this kind of a deal with you?

Mr. McCONNELL. They are with a certain limitation in that the Defense Production Act, a rather technical thing, which says they cannot make either a purchase or sale which extends beyond 1965, and that is the reason we suggested in our proposal there be some amendment to that fact to permit them to make a disposition, make a contract for disposition over a longer period of years.

Senator BUSH. If they approved of your suggestion and wanted to implement it they could ask someone to introduce a bill down here to authorize the procedure?

Mr. McCONNELL. They certainly could.

Senator BUSH. Yes.

Mr. Chairman, I think that is a very interesting proposition and in view of the stockpile, I rather hope they go ahead and do it even in advance of this determination that they are about to make, because this stockpile does seem to be awfully excessive by most any standards you can imagine.

So, I express the hope that OEP will give immediate and serious consideration and possibly get a bill down here that will enable the Congress to act.

I think the Congress would be very receptive to an important reduction in the stockpile where both the Government and the industry agree that it is in the communal interest.

Mr. McConnell. Thanks, we would be happy to proceed right away with the negotiation.

Senator Bush. Well, I hope very much that the OEP will act quickly on this, Mr. Chairman. I think it is in line with the objectives of this committee and the executive branch, and in the interests of the whole situation. I think it is a very constructive suggestion.

Mr. McConnell. Thank you; thank you very much.

Senator Symington. I thank the Senator and agree with him.

I notice in Mr. Hickman's letter he has the statement, "We are probably talking about purchase obligations that will exceed $300 million."

Mr. McConnell. About $340 million, I think.

Senator Symington. If we could get this rolling, it would be in everybody's interest.

Senator Bush. Mr. Chairman, one more thing.

Did the witness say or did you say that a similar situation existed in respect to molybdenum and nickel?

That was mentioned here.

Senator Symington. Both of those industries have approached the committee counsel about possibilities of working something out. It has been an informal discussion.

Senator Bush. They haven't filed a positive plan like the aluminum people have?

Senator Symington. Not as an industry.

Mr. Counsel?

Mr. Coburn. I think it would be well, Mr. Chairman, for me to clarify the record with reference to this matter under discussion.

Senator Symington. Please do.

Mr. Coburn. One company that was a primary producer of molybdenum did come to us and offer to purchase, as I recall it, a part of the surplus in molybdenum but subsequently the OEP set up a plan for the disposal of 5 million pounds of molybdenum and that was approved in H. Con. Res. 473 here recently. With reference to nickel, one of the companies that has sold a large amount of nickel to the stockpile approached us with the thought that they would be willing to purchase back a part of the surplus in nickel.

Now, that, as I recall it, is as far as the matter has gone. There has not been a proposal by any industry other than aluminum.

Senator Symington. As an industry.

Mr. Coburn. As an industry, and where they offered to take back the entire surplus.

Senator Symington. In the case of molybdenum it was the largest producer?

Mr. Coburn. Yes, it was.

Senator Symington. By all odds the largest producer.

Mr. Coburn. The only primary producer in the United States.

Senator Symington. In the case of nickel it was the largest producer?

Mr. Coburn. Yes, it was, Mr. Chairman.

Senator Symington. By all odds the largest producer. So we may be making headway.

Have you any questions you would like to ask Mr. McConnell?

Mr. COBURN. A few questions, Mr. Chairman.

Mr. McConnell, I notice by your statement that you have read that you seem to be in some doubt as to exactly how much the surplus is in aluminum at the present time.

So far as this committee is concerned, and we are operating on the basis of information provided us by the GSA, the maximum objective in aluminum at the present time is 1,200,000 short tons, and we have all together in the stockpile, all stockpiles, 1,929,000 tons, so that we have an apparent excess or surplus of 729,000 tons at the present time.

And, Mr. Chairman, as I understand it, we are operating on that basis.

I believe, Mr. McConnell, your proposal to purchase the surplus, the letter that you wrote to OEP is attached to the statement that you have filed with the committee, is that true?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. It is dated June 20, 1962?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. And signed by Mr. Leon E. Hickman?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. Who is he?

Mr. MCCONNELL. He is executive vice president of Alcoa: Aluminum Co. of America.

Mr. COBURN. Do I understand, Mr. McConnell, that you would like to proceed right now with the purchase of the surplus in aluminum?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. If the objective in aluminum is changed by OEP at some future date, apparently toward the end of this year, so as to reduce the objective and increase the surplus, you would still be willing to maintain your proposition that you would buy the entire surplus as increased?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. You might want to make some adjustment in your offer should that happen?

Mr. MCCONNELL. We would have to, I think, know what the amount was.

Mr. COBURN. In what respect?

Mr. MCCONNELL. Perhaps as to the time at which we acquire the metal, the period of time in which we acquire the metal.

Mr. COBURN. But even if the surplus is increased by reducing the objective in aluminum, say at the end of this year, you would still be willing to purchase the entire surplus?

Mr. MCCONNELL. Yes, sir, we feel like the aluminum surplus is our problem and we have to try to help dispose of it. And we are the proper vehicle through which to do it.

Mr. COBURN. Now, Mr McConnell, you say in your statement that you would recommend that the Defense Production Act be amended, in one respect, with reference to the entering into of long-term contracts, is that correct?

Mr. MCCONNELL. Well, to contracts that extended beyond 1965, yes, sir.

Mr. COBURN. That is the long-term purchase of the aluminum, is that what you mean?

Mr. McConnell. Yes, sir.

Mr. Coburn. I am not sure that we all understand exactly the problem in that respect.

What is the problem with reference to the Defense Production Act at the present time?

Mr. McConnell. Well, as I understand it, Mr. Coburn, it has a provision, section 303(b) which provides that neither long-term sales agreements can be made nor long-term purchase agreements can be made extending beyond June 30, 1965.

Mr. Coburn. June 30, 1965.

So this contract you have offered to enter into with OEP would undoubtedly go beyond June 30, 1965, would it not?

Mr. McConnell. I think it would have to, Mr. Coburn, if we were going to avoid the possibilities outlined in the statement, namely the disruption of our market and employment and the other things I am sure no one would want to see happen. I think it would have to extend beyond that period because it is a very substantial amount of metal.

Mr. Coburn. So you have been advised by counsel for OEP that for you to enter into a long-term purchase agreement for the surplus, which would extend beyond June 30, 1965, there would have to be an amendment to the Defense Production Act?

Mr. McConnell. Yes, sir. I think we have been so advised, at least we have arrived at that conclusion, ourselves.

Mr. Coburn. Now, actually OEP has recommended to the Banking and Currency Committee of the U.S. Senate that the Defense Production Act be amended in that respect, has it not?

Mr. McConnell. Yes, sir, I think they made such a recommendation yesterday, as a matter of fact.

Mr. Coburn. So if that amendment is adopted by the Congress of the United States, then your problem with reference to entering into a long-term purchase of the surplus in aluminum would be eliminated?

Mr. McConnell. Yes, sir.

Mr. Coburn. There was one other recommendation that you made in your statement, I think, at page 10, if I am correct, with reference to being able to swap material in the DPA for material in the stockpile; is that correct?

Mr. McConnell. Well, maybe that is not clear. We didn't want to swap anything. We wanted it to be possible for the Government to exchange metal between the DPA and the stockpile.

Mr. Coburn. Yes, I understand you didn't want to do it.

Mr. McConnell. That is right.

Mr. Coburn. But as I understand it you have recommended legislation to that effect in your statement?

Mr. McConnell. I think, I am not sure that it is needed, as a lawyer; but I think it is generally accepted it is not clear that it is not needed and for that reason we think in the Government's interest they should be clear about it.

Mr. Coburn. Would you mind going over that once more so we are sure we understand exactly what you think is needed, and why?

Mr. McConnell. Well, as I understand that now, the law does not permit an interchange between metal in the DPA stockpile and the strategic stockpile.

There is, as the industry placed the metal in the stockpile, there was an improvement in the grade of the metal.

At one time we were selling commercial metal at 99 percent purity; the commercial grade has increased in purity since that time.

The DPA, being the more recent stockpile, has a better grade metal in it than the strategic stockpile. We think the Government should have the benefit, and generally speaking, so far as the commercial grades were concerned, at least, they were all put in at the market price. We think the Government should have the benefit of the better metal.

Mr. COBURN. And you think it may be necessary to amend the Stock Pile Act, as I understand it?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. In order to do that?

Mr. MCCONNELL. Yes, sir. You see the DPA stockpile is just about the amount of the surplus.

Mr. COBURN. Now, Mr. McConnell, I want to be sure of this, too.

In your proposal to purchase the surplus of the aluminum, you have already said that you are quite willing to have any other primary producer of aluminum join with the three companies that you are representing today in the purchase of the surplus if they want to do it.

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. I believe that you may have just touched on but I think it ought to be made clear, that in your proposal to purchase the surplus aluminum, you have made provision for the fabricators of aluminum who are not primary producers, have you not?

Mr. MCCONNELL. We have. Under the expansion contracts to which I referred early in my statement, it is provided that at least 35 percent of the metal produced by these plants which were part of the expansion program for a period of 15 years, will have to be made available to the so-called nonintegrated fabricators, nonintegrated users.

We have suggested in addition to that—we will still have to do that—but in addition to that the producers make available to the nonintegrated users at least 35 percent of any metal that we take down under this proposal that we now have.

Mr. COBURN. That is what you purchase from the stockpile?

Mr. MCCONNELL. That is right, sir.

Mr. COBURN. As I understand it, you took this same figure of 35 percent in your proposal to purchase the surplus from the stockpile, because that figure had been used previously by the U.S. Government in dealing with you people in your plant expansion program?

Mr. MCCONNELL. That is correct, Mr. Coburn.

Mr. COBURN. That is why you took the 35-percent figure?

Mr. MCCONNELL. Yes.

Mr. COBURN. As I understand it, too, there are in the aluminum industry in the United States, a very considerable number of small aluminum fabricators.

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. Who buy their pig from the primary producers?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. But they are in competition with you people in a sense, because you are also fabricators as well as producers of aluminum pig?

Mr. MCCONNELL. That is right, sir.

Mr. COBURN. And this 35-percent provision then, you think, is a reasonable protection for the independent fabricators who are not fully integrated?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. And the Government has apparently thought that was so some years ago during the aluminum expansion?

Mr. MCCONNELL. That is correct, sir.

Mr. COBURN. One other matter that I would like to touch on a moment, Mr. McConnell, that is not in your statement, but you might be helpful to us.

Besides the aluminum pig and, by the way, the aluminum which we have in the stockpile, the metal is all in pig form, is it not?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. Then in addition to that we have a rather considerable amount of bauxite in the stockpile, do we not?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. That, of course, is just the raw ore that finally is converted into aluminum?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. Now, what is the situation briefly, Mr. McConnell, with reference to bauxite in the United States?

Do we have any—well, I will put it this way: Is all the bauxite that is mined in the United States low grade bauxite?

Mr. MCCONNELL. Yes, sir. There are no available supplies in the United States of high grade bauxite at this time.

Mr. COBURN. What is the principal source of the bauxite ore that is used in the United States today?

Mr. MCCONNELL. Well, the principal sources are Jamaica, Surinam, British Guiana, Haiti. I would think that would cover most of it.

Senator SYMINGTON. Senator Dworshak was going to appear as a witness. Will you please have somebody get in touch with him. We will see him first at 2:30, if that meets with his convenience.

Mr. COBURN. Yes.

Senator SYMINGTON. I would also like to put into the record a statement of Senator Lee Metcalf's following the colloquy you are having with the witness.

Mr. COBURN. Very well.

Senator SYMINGTON. The able Senator from Connecticut mentioned that a bill ought to be up. A bill is up. It is a bill to amend the Defense Production Act, S. 3436, put in the Senate on June 18, 1962

If section 2 were adopted as recommended in this bill, it would make it possible to do what we want to do with respect to working out something with the aluminum industry.

Yesterday, before the Banking and Currency Committee, Director McDermott asked for an amendment of the Defense Production Act comparable to that suggested in the bill introduced by Senator Robertson, chairman of that committee, by request.

However, the committee extended the bill for only 2 years. This was about a week ago; therefore, inasmuch as the Senator from Connecticut is a member of that committee, I would appreciate his presenting to the chairman, and I will talk to the chairman also, why it is important to have this extension beyond 2 years; otherwise the Government could not enter into a long-term agreement of this character.

Senator BUSH. Mr. Chairman, I don't quite get your reference to my saying that a bill ought to be up.

Senator SYMINGTON. I thought you said we ought to move on this now, with legislation. Didn't you feel it would be a good thing to move now?

Senator BUSH. On this thing, on this particular thing?

Senator SYMINGTON. Yes.

Senator BUSH. I see. I didn't get the reference.

Senator SYMINGTON. Mr. May, would you show this section to the Senator from Connecticut? If this section is passed, we can move now. If what was agreed on a week ago in the Banking and Currency Committee stands, we cannot make this arrangement, because they agreed to only a 2-year period?

Senator BUSH. Yes.

Senator SYMINGTON. I find the full Armed Services Committee and Space Committee are meeting jointly at 2:30 this afternoon; therefore we will have to postpone these hearings, subject to the call of the Chair.

Mr. COBURN. We have a great many witnesses here.

Do you want to fix the time for convening again before they break up?

Senator SYMINGTON. Suppose we say we will meet this afternoon at 3 o'clock, as long as you have witnesses from out of town.

Mr. COBURN. Thank you, Mr. Chairman.

Now, Mr. McConnell, I am not sure whether you answered my question, whether you had an opportunity to.

Mr. MCCONNELL. I have some figures here, Mr. Coburn, if I may.

Mr. COBURN. Yes; I was asking you about where do bauxite ores come from that we use in this country at the present time

Mr. MCCONNELL. Well, I indicated to you that most of it came from Jamaica, Surinam, British Guiana, Haiti, and Dominican Republic. I believe that is about right.

Mr. COBURN. The Caribbean area then is where it comes from?

Mr. MCCONNELL. That is right, sir.

Mr. COBURN. I noticed, Mr. McConnell, that we have about 6½ million tons of Jamaica-type bauxite, and almost 7 million tons of Surinam-type bauxite.

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. In the stockpile at the present time.

You have already told us that the opinion of your people is that this bauxite ore does not degenerate from being stored and kept through the years?

Mr. MCCONNELL. No, sir; it does not degenerate. Some people think it gets better.

Mr. COBURN. However, it occurs to me that in view of the fact that at least the principal purpose of the stockpile is to have immediately for use certain strategic materials in time of war, how long does it take to convert bauxite into aluminum pig ordinarily?

Mr. MCCONNELL. Not very long. That is a relatively short process. We just convert it into alumina and on into aluminum. It doesn't take long.

Mr. COBURN. Well, months would you say?

Mr. MCCONNELL. Oh, no, not months. If you run it on a normal cycle, Mr. Caskie points out it would take 60 to 90 days.

Mr. COBURN. Yes, that is what I mean.

Now, I suppose that running it on a normal cycle, the amount of raw ore that you were converting into aluminum, would have something to do with how soon you could turn it into aluminum, wouldn't it, the amount of ore?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. And amounts of 6½ and 7 million tons, considering your present capacity in this country, could you get us any idea how long it would take approximately?

Mr. MCCONNELL. Well, based——

Mr. COBURN. To convert that into aluminum pig?

Mr. MCCONNELL. Yes, based on our anticipated use in 1965 it is a 13-month supply.

Mr. COBURN. A 13-month supply, manufacturing supply?

Mr. MCCONNELL. Yes.

Mr. COBURN. So with your present capacity it would take about 13 months to convert this bauxite into aluminum pig?

Mr. MCCONNELL. Well, I have based it on 1965. It would take a little longer than that but in general, that is right.

Mr. COBURN. So that considering the fact that this material we have in the stockpile is strategic material to be used on the spur of the moment, if we should have a war, we have something of a problem there as to whether we should retain these raw ores such as bauxite in the stockpile or whether we should not go ahead and beneficiate them and raise them up to the metal grade, and keep them in the stockpile in metal form, isn't that right?

Mr. MCCONNELL. Well, I don't know. We rather think perhaps you should increase the stockpile of bauxite.

Mr. COBURN. Well, give us the benefit of your views in that respect.

Mr. MCCONNELL. You see, we are talking only about a 13-month supply. And most of these acquisitions of bauxite have come from the so-called barter arrangements which have another beneficial effect, another benefit to the Government, and we rather think that perhaps that barter arrangement should be continued.

As you know, bauxite ultimately through the barter arrangements is exchanged for, generally speaking, perishable agricultural commodities. As I understand the general thesis is that in 4 to 5 years, through payment of storage charges and deterioration, they are all gone.

If it is possible to exchange the products such as bauxite for these deteriorating agricultural commodities, I think there is a benefit there to the Government.

In addition we do not have a lot of bauxite in relation to our utilization of it.

Mr. COBURN. That statement of yours with reference to the use of barter of agricultural products for bauxite ore interests me very much. You say that your industry would be inclined to encourage the use of bartering agricultural products for bauxite?

Mr. MCCONNELL. Yes, sir.

Mr. COBURN. If that were done, as a matter of policy in the future, without regard, we will say, to objectives in aluminum in the stockpile, would the aluminum industry, you think, be disposed to buy the bauxite from the U.S. Government that we acquire by barter, do you think?

Mr. McConnell. Well, we haven't contemplated that up to now, Mr. Coburn.

Mr. Coburn. You have not?

Mr. McConnell. No, sir.

Mr. Coburn. Well, I would not expect you then to give me an answer immediately, but I pass that on to you for consideration, if I may, because I think it might have some possibilities. But certainly you feel that it would be something that your industry would favor for the U.S. Government to barter its agricultural products for bauxite ore to be held in the stockpile?

Mr. McConnell. Yes, sir, we do.

Mr. Coburn. All right. Thank you for that.

Now, however, to get back to what we were discussing a moment ago, do you feel that we have a problem that should be taken care of in the management of the stockpile by virtue of the fact that we are maintaining a rather large supply of raw bauxite ore that would not be immediately available for the purpose of manufacturing end products should we suddenly be thrust into war?

Mr. McConnell. Well, my colleague says it doesn't cost anything to maintain it but more important than that, I don't think it would help a great deal. You see, what we would do, we would continue to run out the cycle for the production of the metal no matter what—well, if we were able to operate, we would continue to run out the supply of metal.

Now, the bauxite would just come in in its normal place out of the stockpile if we had our sources closed off from the Caribbean. Of course, you may be talking about a situation where we could not produce the metal. I hadn't thought of that. I will have to think of that, sir.

Mr. Coburn. Well, in any event, the bauxite that we have on hand in the way of raw ore would result in a cycle of about 13 months before that could be converted into aluminum pig to be used to manufacture war materials in the event of war.

Mr. McConnell. Oh, no, sir; what I meant to say was that just a 13 month's supply of bauxite. It is no more than that. In the normal cycle it would be used from 60 to 90 days.

Mr. Coburn. Yes, but could you use that much bauxite in 60 to 90 days?

Mr. McConnell. Oh, I understand what you mean, oh, no.

Mr. Coburn. Yes, that is what I have in mind. Having in mind the primary purpose at least of the stockpile is use for strategic purposes in the event of suddenly being thrust into war, it would take about 13 months, would it, considering your present aluminum capacity in the United States, to convert this bauxite into aluminum pig, the amount that we have in stockpile?

Mr. McConnell. Yes.

Mr. Coburn. Well, I was just wondering from that whether you thought that we had a problem there as to whether we should continue to maintain raw bauxite ore in the stockpile or whether we should convert all of it into pig and hold the pig in the stockpile?

Mr. McConnell. Well, as I say, we had not contemplated this problem. I would rather assume that you should continue to hold the bauxite.

Mr. COBURN. Tell us why; we really want the benefit of your views.

Mr. MCCONNELL. So that the plants could continue to operate. Of course, you have the alternative that perhaps the plants could not operate. But I think it would be well if we had a supply of bauxite so they could continue to operate in any event, if that were possible. We would not be able to do that were our supply cut off from Jamaica and Surinam and other places.

Mr. COBURN. I see.

So on the assumption you would continue your operations of manufacturing aluminum pig during a war you think it would be wise to maintain a supply of the raw bauxite ore in order to supply you people in the event of war?

Mr. MCCONNELL. That is right; yes, sir.

Senator BUSH. Could I ask a question, Mr. Chairman?

Senator THURMOND (presiding). The Senator from Connecticut.

Senator BUSH. Does your proposal contemplate the taking of minimum amounts annually or does it leave to you the entire discretion as to when you would draw down from the stockpile under your proposed contract?

Mr. MCCONNELL. Well, we want just as much flexibility, Senator, as we could have, so we would not have any more detrimental effect to our market, to our employment, than possible, and of course, we have not had the possibility of discussing this point in negotiating with the appropriate people.

I would think we would have to have some flexibility but I would also have to agree to some minimum quantities from time to time. I wouldn't think we could just take it down as we wanted.

Senator BUSH. I think that is a very important point.

Mr. MCCONNELL. I don't think we could do that without having a commitment from—on our part a limited quantity. We might have to average it 3 or 5 years but we have to have a commitment of some kind.

Senator BUSH. How long a period of time do you visualize the contract should run?

Mr. MCCONNELL. We have a very substantial amount in the stockpile, as you know, and we had thought that in order to do it without disrupting the market it might be 15 to 20 years.

Senator BUSH. I see.

Mr. MCCONNELL. There are those who think it ought to take a lesser time.

Senator BUSH. Just offhand, without commitment, what size of total takedown do you visualize there?

Do you visualize a possibility of a 15-year period using a million ton principle, or does it run that high in your thinking or not?

Mr. MCCONNELL. No, the stockple surplus as it is now set is about 750,000 tons.

Senator BUSH. The surplus as now declared?

Mr. MCCONNELL. As now declared. If it was more than that——

Senator BUSH. So you're thinking in terms of about that much?

Mr. MCCONNELL. Yes, sir.

If it were more than that perhaps we would have to extend the period of time some in order to absorb it.

Senator BUSH. But roughly speaking you are thinking in terms of 750,000 tons and a 15-year period, right?

Mr. MCCONNELL. I said 15 to 20.

Senator BUSH. A 15 to 20 year period, all right, that is fair enough.

Mr. MCCONNELL. Yes, sir.

Senator BUSH. And then have you any idea what minimum you think would be a fair minimum for you to take under that kind of a deal?

Would it be 50,000 a year minimum or what had been your thinking about that?

Mr. MCCONNELL. Well, I would hope that we could take, we would have as much flexibility as the Government sees fit to give us.

We would perhaps have an average-out over a 3-year period, for example, where we took so much a year, if we could, but if we couldn't take it in 1 year without disrupting things why we commit ourselves in a 3-year period to take the total 3-year requirements or maybe over a 5-year period.

For example, if we had made this agreement in 1957 that we are proposing we would have been in a very difficult position, because we haven't been able to dispose of the metal which we have the capacity to produce now, and we—it is an onerous commitment on our part, goodness knows, and we would like to have as much flexibility as possible but I do think we have to agree to take some minimum quantities per year, perhaps with a leveling out, averaging out, process on a 3- to 5-year basis.

Senator BUSH. Thank you, Mr. Chairman.

Senator THURMOND. Mr. McConnell, this would probably be to the advantage of the aluminum companies as well as to the Government, wouldn't it, to handle disposal under the plan you propounded here?

Mr. MCCONNELL. Mr. Chairman, of course the aluminum companies wish there was no stockpile and no surplus. I mean we would wish there was no such problem, but since we have the stockpile surplus, I think it would be to our advantage to dispose of it in the normal course of commerce rather than to have the Government endeavor to do that which it is not equipped in any way to do at all, and to have the resulting disruption of the market and employment and the other things.

Senator THURMOND. This would be a normal channel under the free enterprise system rather than committing the Government to go into the business and setting up the proper machinery for disposal, would it not?

Mr. MCCONNELL. Yes, sir, this would be done in the commercial way.

Senator THURMOND. Naturally, I presume your company and the others would prefer to follow that procedure rather than be having competition with the Government throughout the year?

Mr. MCCONNELL. Yes, sir. We would prefer this procedure.

Senator THURMOND. Do you have any more questions?

Mr. COBURN. No further questions, Mr. Chairman.

Senator THURMOND. Does minority counsel have any questions?

Mr. ZIMMER. No.

Mr. COBURN. Mr. Chairman, I believe we will not call any before the next recess, except I would like to introduce in the record the statements of Senator Lee Metcalf, of Montana, Senator Frank Moss,

of Utah, and of the National Association of Secondary Material Industries, Inc., signed by M. J. Mighdell, executive vice president, which were sent to be included in the record.

Senator THURMOND. Without objection the statements will be admitted into the record.

(The statements referred to follow:)

STATEMENT OF HON. LEE METCALF, A U.S. SENATOR FROM THE STATE OF MONTANA

Mr. Chairman, I appreciate this opportunity to submit a statement for the record concerning the stockpiling of strategic materials.

The economy of Montana is vitally affected by what happens in the mining and metals industry. A drop of a few cents per ton in the price of copper might spell economic disaster for Butte, Anaconda, and other parts of the State.

I think there is general agreement on two points (1) the Nation's stockpiles of strategic minerals and metals should always be maintained at adequate levels to meet our defense needs, and (2) the stockpiles should be used only to meet security requirements.

One problem that tends to disturb the equilibrium of supply and demand of stockpiled strategic materials is the fact that defense needs are fluid; a healthy Defense Establishment undergoes steady change in the types of weapons developed and consequently in the types and amounts of the various types of minerals and metals needed. While this kind of change occurs, there is another problem in terms of how fluctuating levels of stockpiled materials might affect the market.

Therefore, my primary concern in this regard is that stockpiled materials should not be subject to quick release by administrative action without careful planning in consultation with representatives of the industry involved and the appropriate congressional committees. Most importantly, I believe that surplus stockpiled materials should be dispensed with only through regular producer-marketing channels so that prices and established markets will not be adversely affected.

For example, in aluminum and copper there are a relatively small number of competing companies. In copper we should call in the domestic producers and after ascertaining their respective share of the market for 5 or 10 previous years allocate to each of the producers that percentage of the surplus stockpile to be disposed of over a 10-year period. Each company then would be, in effect, absorbing its share of the surplus and yet there would be no break in the market because the same forces would be in control. Put such a program into operation along with safeguards that the stockpile surplus could not be utilized in a time of strike and we could get the surplus away from overhanging the market, and thus stabilize the metal market, dispose of surplus, and maintain orderly marketing channels.

STATEMENT OF HON. FRANK E. MOSS, A U.S. SENATOR FROM THE STATE OF UTAH

Mr. Chairman and members of the subcommittee, if a man were teetering on the edge of a cliff, about to fall off, everyone within reach would with one accord rush to give him a hand and pull him back.

Yet, though domestic lead and zinc industry has reached what is most certainly the edge of its economic precipice, and is struggling to keep a foothold, a proposal has been put forth which would give this industry not a friendly grasp to pull it back, but the palm of a hand for a final push over the brink.

At least, that is the way I regard the proposed stockpile disposal bill before this subcommittee. I do not believe I am overstating the case—I do not believe I am being dramatic. The lead and zinc industry has been sorely beset by economic hardship for over 10 years now, and has just about reached the end of its resources. Disposal of stockpiles lead and zinc under present market conditions and world oversupplies of these materials, would be a body blow. In fact, even the fact that stockpile disposal is under consideration has been enough to depress prices and further unsettle this troubled industry.

I want to make it clear that as long as the lead and zinc industry remains in its present perilous economic position I am opposed to any attempt to dispose in any way of lead and zinc stockpiles. I doubt that disposal could be accomplished without detrimental effects on the domestic industry.

I want to make it clear that I shall oppose with equal vigor any attempt to induce the Congress to relinquish to the executive branch its control over the stockpiles of strategic, critical, and related materials in various Federal stockpiles whether they be in the national stockpile, the Defense Production Act inventory, the Commodity Credit Corporation inventory, or the so-called supplemental stockpile. Instead of relinquishing control to the President, and through him to the General Services Administration, as provided in the draft bill before this subcommittee, I believe the Congress should have more specific and more adequate control over stockpile areas where it appears lacking, as in the case of the Defense Production Act inventory.

It was the firm intent of Congress, in authorizing the legislation creating these huge stores of materials basic to industrial and military operations, to hold for itself the final say concerning any dispositions thereof for any reason other than war emergency preparedness purposes.

Our late honored colleague, Francis Case, of South Dakota, raised this very question on May 24, 1946, on the floor of the House when the Strategic and Critical Materials Stockpiling Act was under consideration. At that time he commented in parts as follows:

"* * * Some fears had been expressed to me on the ground that this stockpile might be used as a threat to hold over the market for release for commercial advantage * * *.

"I am glad to have the assurance of both the gentlemen from Kentucky and the gentlemen of Iowa on the matter. *Surely the Congress does not want these stockpiles to be acquired in the name of national defense and then be dumped on the market at the expense of our national economy and national development.*"

The minerals and metals industries, despite expressed fear of the creation of such concentration of economic substance, supported the legislation authorizing the national stockpile on the grounds that minerals and metals stockpiles were essential for national defense.

However, had the intent of the legislation not been made perfectly clear with respect to responsibility for control of the stockpiles to be accumulated, this legislation would not have had such support. Mr. Julian D. Conover, secretary of the American Mining Congress, in testifying before the Subcommittee on Surplus Property of the Committee on Military Affairs, U.S. Senate on S. 752 which subsequently became Public Law 520, the Strategic and Critical Materials Stockpiling Act, expressed that fears were obviously warranted. He commented in part as follows:

"* * * *Unless the stockpile accumulations are securely locked up, the Congress itself holding the key, they will inevitably have an unhealthy and repressive effect on the mining industry.* The conferring of discretionary power upon any administrative agency to liquidate portions of the stockpile must inevitably impair, if not destroy, the necessary confidence on the part of those who are responsible for operating and developing our mines. Even though such power were never exercised, the mere fact that it could be, would serve as a continuing threat, a sword of Damocles hanging over the mining industry and discouraging its development, expansion, and long-term financing. Such a condition would seriously jeopardize the maintenance of a strong, healthy industry, engaged continually in developing new reserves and new metallurgical processes, and possessed of the equipment, organization, and 'know-how' that will be indispensable in another emergency.

"* * * As I said before, we have no thought that any of those who have actively shared the responsibility of gearing our production to the requirements of World War II, and have participated in the drafting of this legislation would ever wish to give our industry cause for alarm; *yet in the future, persons not possessed of this background—intent perhaps on some laudable objective such as Government economy—might well fail to appreciate the necessity of keeping the stockpiles inviolate,* and of preserving that confidence on the part of mining men that is essential to our 'basic stockpile'—a sound and health mining industry * * *."

Mr. Chairman, here indeed were prophetic words "intent perhaps on some laudable objective such as Government economy." However, the actuality is even worse than the prophecy because it is here in the Congress itself that some are advocating the hanging of the sword of Damocles over the mining industry.

Having legislated the authority for, and having provided the appropriations to carry out the creation of, these stockpiles of tremendous economic substance in the cause of national defense, surely Congress will not close its eyes to its continuing responsibility to prevent these stockpiles from being used to the detriment of our national economy and national development. It would violate the obvious intent of the Congress in authorizing the creation of the national stockpile program.

Is there real economy to be achieved in liquidating accumulations of perfectly useful nondeteriorating strategic minerals and metals which have been procured from the four corners of the globe at great expense, time and effort? Wherein lies the economy to be derived from selling lead and zinc in depressed markets whose procurement cost averaged 14¾ and 14 cents a pound, respectively? Wherein lies the economy in liquidating vast stockpiles that have recently been physically inventoried at a cost of some $9.5 million (all materials) to reveal a difference of three one-thousandths of 1 percent as against book records based on commercial bills of lading?

Contrast this extravagance of $9.5 million against the cost for 1 year of maintaining all the stockpiled lead and zinc allegedly in excess of objectives: namely, $101,600 for lead and $168,240 for zinc or a total of $269,240. Even this relatively small bookkeeping figure for storage cost is higher than actually warranted or incurred since much of the stockpiled lead and zinc is stored at military storage depots in open space. This space in most instances would not be otherwise utilized yet the General Services Administration reimburses or subsidizes the military establishment at the rate of 6 cents a square foot.

It is particularly inappropirate to contemplate stockpile disposals of lead and zinc in view of current market and economic conditions now prevailing in this industry. Stocks of zinc on hand in world smelters and refiners continued to climb in the first half of this year and lead stocks are still greatly in excess of world needs. Average quoted market prices for July in the United States were 9.5 cents a pound for common lead, New York, and 11.5 cents a pound for prime western zinc, East St. Louis, or a combined price of 21 cents with some discounting below these published prices. The seriousness of the present situation becomes obvious when related to stockpile action announced by the Eisenhower administration in March of 1954 which acted to reverse a nearly 2-year downward trend in prices for these metals. Prices prior to the announcement of stockpiling intentions in March 1954 were 12.5 cents a pound for lead and 9.25 cents a pound for zinc, or a combined price of 21¾ cents. Prices due to the bolstering effects of stockpile purchases beginning in June 1954 had reached sustained levels of 15 and 11.5 cents a pound for these metals respectively by September-October of that year.

With a continuing combined price level for lead and zinc at a level as low or lower than prevailed when stockpiling action was deemed necessary to maintain a healthy lead zinc industry in the interests of national security, it becomes obvious that, rather than considering disposals of these materials at this time, we should instead be doing something constructive to improve and protect the status of this depressed industry.

A difference in price of even a small fraction of a cent a pound for lead and zinc can have serious repercussions in terms of returns on invested capital, employment, development, and conservation of these mineral resources. The average drop in price for lead from 1960 to 1961 was 1.077 cents a pound, or a loss of $5.6 million on the 260,348 short tons of lead mined in 1961. The drop in the average price of zinc of 1.404 cents during the same period, constituted a loss in return on investment of $13.1 million for the 466,576 tons of zinc mined in 1961. Talk of releasing these materials from the stockpile has undoubtedly contributed to the further decline in price for these essential materials in 1962.

Testimony taken before congressional committees has repeatedly recorded that for the average mine which produces lead and zinc in the United States a combined total price of about 30 to 31.5 cents is necessary to sustain profitable operations. The currently prevailing combined total price of 21 cents is a good indication why so many lead-zinc mines have closed over the past decade. If some action is not taken which will have a substantial, positive influence for the better, further economic losses will be sustained by the industry and the Nation as a whole.

The number of producing lead and zinc mines in the United States over the period 1948–61 plunged from 1,346 to but 292. Similarly, average employment dropped from 16,113 to 6,082 in the same period. In my own State of Utah the number of producing mines fell from 81 to only 15.

During the period from 1948 to 1961 mine production of lead in the United States dropped off from 390,476 to 260,348 short tons, or 33 percent, and production of zinc declined from 629,977 to 466,576 short tons, or 26 percent. In contrast, world production of lead went up, from 1,610,477 to 2,566,000 tons, or 60 percent and that of zinc rose from 2,039,274 to 3,510,000 tons, or 72 percent.

The increased rate of importation of both lead and zinc due to expanded production abroad led to imposition of import quotas effective October 1, 1958. The quota level was set at 80 percent of the competitive import rate during the period 1953–57. However, there is a grave fallacy in fixing import quotas in terms of tonnage rather than in percentages of demand because substantial fixed tonnages of imports can enter domestic markets even though the level of effective demand or consumption has drastically declined. A release of these materials from Government stockpiles would add further impetus to the shrinkage of the market outlet for lead and zinc production from existing domestic facilities. It should be obvious that such action would border on the irresponsible.

No effective action has been taken to establish flexible tariffs or adopt percentage import quotas so that domestic mines and smelters can be assured of a more certain sustaintial percentage of domestic consumption. In 1961 domestic mine production in terms of percentages of domestic consumption of lead and zinc was but 26 and 38 percent, respectively.

The inadequacies of the system involved for obtaining relief under the peril-point and escape-clause provisions of tariff legislation and agreement is clearly demonstrated by the fact that even though the problems of import injury to the domestic lead and zinc mining industry have been reviewed by the Tariff Commission on seven separate occasions in the past 9 years, no adequate relief for this hard-pressed industry has been so afforded.

While this Congress did pass Public Law 347 in October 1961 to help stabilize the mining of lead and zinc by providing some degree of aid to small domestic producers, its provisions are at best discriminating and constitute only a token gesture in terms of what is needed to restore the overall competitive position in domestic markets of the lead and zinc segment of the U.S. mining industry.

Ironically enough, at the same time that disposals are being proposed or contemplated, the United States in return for bartered wheat with two foreign countries is receiving an equivalent value of lead this year, 105,000 tons no less. This trading of an agricultural commodity, subject to deterioration and spoilage in storage and incurring costly storage charges, for surplus foreign metals not subject to deteriorating, involving minimal storage charges in the case of lead and zinc, has been done several times for a period of years.

Presumably lead and zinc acquisition has in part been justified on the assumption that removing calculated quantities from world markets would relieve the pressure of foreign competition for market outlets in the United States. Such has not been the case. However, it was also presumably based on the consideration that these were durable materials essential to defense activities or to the reconstruction of large areas which might be decimated at some future time by atomic warfare both in this country and abroad.

Needless to say I will not support a change in the law of the land to now permit these materials in the supplemental stockpile to be held over the head of our domestic lead and zinc mining industry. Trading one surplus for another on the guise of better storage qualities and strategic considerations, as well as possible economic benefits, is one thing, but the bald proposal to now reverse the field and undertake to underwrite disposals of these foreign proposal materials at the expense of the domestic lead and zinc industry, in my opinion, is indefensible. I will not be party to sacrificing our domestic lead and zinc industry on an alleged altar of economy or to permitting it to be so depreciated in the support of the disposal of agricultural surpluses that it could not longer be considered an effective part of our economy and defense mobilization base.

I would like to emphasize again that it was the intent of Congress in permitting stockpiles of basic materials to be built up that they should be used only in time of dire need and not be subject to disposal to support a balancing of the budget or other purely dollars and cents cause. It is vitally necessary that the Government's stockpiles of strategic materials be so operated as to constitute neither a perpetual threat to commercial markets nor a continuing focus of political pressure from interested groups.

Whether these large stockpiles of nondeteriorating strategic materials of wide industrial use function as a national asset or as a national liability depends in large part on the technique under which they are operated and controlled.

These stockpiles are beneficial and nonembarrassing if maintained to meet future needs when commercially available supplies of such materials may be either exhausted or unavailable because of a military situation or even because of the wholesale or complete destruction of the means of production. They are unsettling and destructive to markets and expensive to us only when the technique of handling them becomes one primarily of sale rather than conservation for emergency.

Broad-gaged stockpiling policy as a function of Government should be such as to accept the challenge of peace as well as of meeting the exigencies concomitant with wartime or other emergency requirements. I feel, Mr. Chairman, that we have a moral, if not a legal obligation, to maintain the basic intent of the Congress in providing for the creation and control of stockpiles of essential and durable basic strategic materials such as lead and zinc. Any other action is completely contrary to the public interest.

NATIONAL ASSOCIATION OF SECONDARY MATERIAL INDUSTRIES, INC.,
New York, N.Y., June 4, 1962.

Senator STUART SYMINGTON,
Chairman, Senate Subcommittee on the National Stockpile,
U.S. Senate, Washington, D.C.

DEAR SENATOR SYMINGTON: The three metal divisions of our trade association—Metal Dealers Division, Secondary Metal Institute, and Foreign Trade Division—which include in their membership important producers, consumers, and dealers of secondary nonferrous metals throughout the United States, are vitally concerned with the possible release of metals from the stockpile and its impact on the nonferrous metal industry.

We wish to urge you to recommend that any legislation on stockpile release include provisions to the effect that such releases shall be made by a Government agency in consultation with producers, consumers, and dealers in the primary and secondary metal industry.

We strongly recommend that the U.S. Government consult with industries interested in the disposal of stockpile of nonferrous metals so that no action will be taken that will disrupt markets in the United States.

We also suggest that these committees should meet at least every 6 months or sooner to review the current situation and that any additional releases should be preceded by meetings of the committees so that all phases of the situation can be taken into account.

Our reasons for making such recommendations are as follows:

1. Unless stockpiled metal is released judiciously, the impact of such release will adversely affect not only the primary industry but also the secondary nonferrous metal industries.
2. It would disrupt the normal outlets for secondary raw materials and thereby severely impede the collection system of secondary raw materials which has been laboriously built up during the past 50 years.
3. It would also bring undue hardship on those of our many members who are merchants normally dealing in the commodities encompassing nonferrous metals which may be declared surplus and sold by the Government.

In summary, we wish to point out that we believe this course of action will be in the best interests of the American economy.

Representatives of our association are available to serve in any capacity considered advisable by the Government.

Respectfully yours,

M. J. MIGHDELL,
Executive Vice President.

Senator THURMOND. We will now take a recess until 3 o'clock. I wish to thank you for your statement.

Mr. MCCONNELL. Thank you, Senator.

(Whereupon, at 12:25 p.m., the subcommittee stood in recess, to reconvene at 3 p.m., the same day.)

AFTERNOON SESSION

Present: Senators Symington (presiding), Thurmond, and Beall.

Senator SYMINGTON. The committee will come to order.

Senator Dworshak, we welcome you. Based on your knowledge of the mining problems and your long distinguished service in the Senate, we appreciate this opportunity to have your thoughts with respect to this draft of a bill which, again, we have no pride of authorship.

We want to find out what is best with respect to these three large stockpiles the taxpayers now own, how to get rid of the surpluses in orderly fashion, provided the administration and Congress think a particular item should be disposed of.

STATEMENT OF HON. HENRY DWORSHAK, A U.S. SENATOR FROM THE STATE OF IDAHO

Senator DWORSHAK. Thank you, Mr. Chairman.

I appreciate the opportunity of appearing before this committee to make a brief statement as to the draft of a stockpile disposal bill that you are considering today.

The draft measure which you are considering, if I understand it correctly, would transfer from the Congress to the executive branch of the Government the control over disposal of any metal, mineral or material which is surplus to the needs of the stockpile objectives—including any such materials which may be in the Defense Production Act inventory, the supplemental stockpile or the national stockpile. This would remove from the Congress the existing right to approve any disposal. It would leave stockpile disposals at the discretion of the executive branch and provide for only a 30-day notice in the Federal Register as to the availability for sale, at prices to be determined by the executive branch.

When Congress originally established the national stockpile it did so to provide a store of minerals, metals, and materials needed for our national security. It further made plain, that once acquired, the stockpile materials could only be disposed of after 6 months' notice by the executive branch and after positive approval of the Congress. The draft bill now before you completely reverses this procedure and shortens the time in which disposals can be made and eliminates congressional approval.

Congress is in the dark as to exactly how the stockpile goals are set. While the stockpile goals have been made public, the cloak of secrecy still surrounds the method by which these goals are set. How do we in Congress know whether or not the goals are the correct ones to meet our military security needs, and how do we know that there are really any surpluses, particularly in minerals and metals, in the stockpile today?

It seems to me that before we undertake to consider disposal legislation we must see that a careful reappraisal of the stockpile objective is made, and that the factors on which they are arrived at are made clear to the public.

Those of us who come from mining States of the West know full well the effect of even mentioning disposal of minerals and metals in the stockpile has, not only upon the markets of the domestic mining

industries, but upon world markets. The mere announcement that this committee was considering disposal of materials in the stockpiles has resulted in depressed prices both at home and abroad. As most of you well know, the plight of many of the mining industries in this country is very serious. Were we to permit the executive branch to dispose of stockpile materials on the basis suggested in this bill, the results could be disastrous. Many of our domestic mines would close down with resulting unemployment not only within the mining companies, but in the communities supporting the mining economy.

As you all also know, economic conditions of the country today are not good. Passage of a bill such as you are considering in draft form would only add to the woes of industry.

In my own State of Idaho, the lead-zinc industry is in the throes of striving hard to keep its head above water. We see no need for the present bill which could only apply the coup de grace to an already struggling industry. I am sure that this would also be the effect upon the other branches of the mining industry, which have had to utilize every means of managerial ingenuity and technology to maintain even a mobilization base for domestic mining.

I strongly suggest that this committee put aside consideration of this disposal measure pending an effective reappraisal of overall stockpile objectives and a determination as to whether or not they will meet the needs of our national security now or in the future—and whether they will meet rehabilitation requirements coming as an aftermath of any nuclear attack, should it come.

Mr. Chairman, I go back about a decade or so when, as the chairman of an unofficial committee of Senators, we went to the White House on three different occasions, I think it was in 1954, to present to the then President the serious status of the lead-zinc mining industry in the producting States of our Nation.

At that time I am sure there was some difference of opinion as to what policies should be adopted to stabilize the lead-zinc mining industry.

President Eisenhower frowned upon many of the suggestions which were made, and I can recall very vividly that he said with emphasis that stockpiling would be adopted as a policy, and that if that failed to achieve the desired results some other policies would be adopted.

Senator SYMINGTON. Will the Senator yield? What policy was he discussing?

Senator DWORSHAK. Well, this unofficial committee of Senators pointed out that there was widespread distress in the lead-zinc industry and, as I recall, there was the possibility of having tariffs or import quotas. But the President, as I said, frowned upon any suggestions which were made in this discussion, and indicated that he favored a stockpiling program, and he added that if that failed to bring relief that some other procedure would be adopted.

In the ensuing years, stockpiling continued as our national policy. As I recall, the legislative branch cooperated and felt that if no other remedies were available, that stockpiling certainly would accomplish some worthwhile objectives in helping to stabilize the lead-zinc industry, and other segments of the mining industry and, at the same time, would help to create stockpiles of so-called strategic materials.

Some were not entirely strategic, of course, but they would be very valuable in case of involvement in world conflict.

As I say, some of those policies may not have been what was desired by the executive branch, but stockpiling continued for several years.

I have wholeheartedly agreed with the chairman that there has been too much secrecy and that the details and the ultimate goals set for stockpiling were withheld from the Congress.

I think that was wrong, because I am sure the chairman will agree with me that if we have had some abuses in the handling of stockpiles, the Congress has a joint responsibility; but primarily the administration or the executive branch of Government has been largely responsible; and, so today I find myself unable to approve a proposal which would not only continue the administrative responsibility which we have had in the past, but would eliminate the joint responsibility of the Congress and create a situation which might have many adverse effects. I am sure that unless we can maintain the congressional controls which we have currently, there may be attempts made to dispose of some of the so-called surplus minerals and materials which would seriously accentuate the distress which we have had for several years in the mining industry.

That would be most serious at a time when this administration and the Congress have been considering proposals to set up various programs which would alleviate this distress in the minerals industry and would avoid the constant expansion of unemployment.

I can see no justification, Mr. Chairman, for taking Congress and its responsibility out of this picture.

Senator SYMINGTON. Thank you, Senator Dworshak.

We appreciate a great deal your observations with respect to this problem.

We have three major stockpiles. I believe based on the nature of your comments, you were referring primarily to the strategic stockpile. We have stockpiles, billions, also in the defense production inventory and the supplemental stockpile.

Top legal authority in this field in Government today, the same legal authority of the previous administration, says we cannot dispose, on any basis, from the supplemental stockpile.

I know you would want to see that straightened out.

Senator DWORSHAK. Yes, I would certainly want some provision whereby we could first reappraise these stockpile goals, and then take the necessary action to insure the handling of these materials in an effective way.

Senator SYMINGTON. Thank you for clearing up once and for all confusion as to the why of some of these stockpile purchases. Many witnesses have stated the stockpile was utilized, in the years you mentioned, as a method for alleviating unemployment and distress. Others have stated stockpiling was not done on that basis, but only in the interest of national defense.

You have cleared that up once and for all. You say in your statement on page 2:

> The mere announcement that this committee was considering disposal of materials in the stockpiles has resulted in depressed prices both at home and abroad.

That statement is not borne out by previous testimony. Have you any figures to justify that statement?

Senator DWORSHAK. No, not in a specific manner, Mr. Chairman, except that the price of lead today is at a low for, I would say, 20, 25 years, if not longer; and zinc is somewhat depressed, and other mineral prices, like cobalt and tungsten, and many other minerals are depressed.

I would say in referring to your observations as to the original objectives of stockpiling, that I think it was a combination of several of these motives, to help stabilize the industry as a very vital and integral part of our defense preparedness; and, secondly, to be sure that in case of a long war that we would not have to rely upon these strategic minerals from abroad, because in World War I and, I think, to some extent in World War II, we learned that we must be self-sufficient when we become involved in war.

Senator SYMINGTON. Thank you, Senator. We appreciate your views.

Senator Beall.

Senator BEALL. No, I do not have any questions. I am sorry I missed the statement of the Senator from Idaho. I was on the telephone.

Senator SYMINGTON. Senator Dworshak comes from a State well versed in mining. We are glad to have you with us, and appreciate your testimony.

I am going to take the liberty of discussing this with you informally, as I would also like to do with Senator Bennett and Senator Allott.

Senator DWORSHAK. I shall be glad to do that, Mr. Chairman.

I want to point out that I have emphasized the lead-zinc industry primarily because Idaho is the No. 1 producer of lead and zinc.

Sometimes some State may take first place temporarily, but we have rated first usually in the production of these two minerals. During the war we produced tungsten, we produced cobalt, had the only cobalt-producing mine, and so it is shut down, of course, now, because it cannot compete with the prices of cobalt produced abroad.

May I just emphasize this one point: That if the stockpile has served a purpose in the past decade or so from any angle that you might want to mention, then I think it is very essential at this time that we take no action which would not only undo what good has been done in justification of a stockpile program, but that we avoid the pitfalls which may arise if we take some precipitate action which inadvertently might affect the price structure, employment, and the national significance of minerals as a part of our defense posture.

Senator SYMINGTON. I know the able Senator agrees what we do we should do in the public interest, in the future without all this secrecy. It also should be done without any unconscionable profits made in sales to the Government. With those premises, it would seem better to store a ton of lead or a ton of zinc at something like 10 to 12 cents per year, than a ton of grain for $4.50 a year, especially as grain is perishable.

Senator DWORSHAK. Well, I can say, frankly, that I believe that we can rely upon the good judgment of the chairman, who comes from a State which is not only famous for its agricultural production, but also has some of the great mines of lead, zinc, iron ore, and other minerals which play an important part in the economy of our country.

Senator SYMINGTON. I know the Senator is as compassionate as he

is able. I trust he will remember this hearing, and when some of the farm bills come up he will be as sympathetic for the good people of agriculture as he is for the miners.

Senator DWORSHAK. I can assure the chairman that in the State of Idaho we produce wheat and potatoes and sugarbeets and peas and beans and some of the commodities which necessarily make me fully cognizant of the importance of agriculture also.

Senator BEALL. Mr. Chairman, hearing about all these wonderful things that are growing in Missouri and in Idaho, I would just like to call attention to the fact that in Maryland, we are right good in growing things.

Senator SYMINGTON. All we have to do is look a little beyond the window, and we can all see that. [Laughter.]

Mr. Counsel, you have another witness?

Mr. COBURN. Yes. Mr. Conover, Mr. Chairman, is the next witness.

Senator SYMINGTON. Mr. Conover, it is the custom to swear witnesses before this committee.

Would you raise your right hand, please?

Do you swear that the testimony you give the subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CONOVER. I do.

Senator SYMINGTON. Proceed, Mr. Counsel.

TESTIMONY OF JULIAN D. CONOVER, EXECUTIVE VICE PRESIDENT, AMERICAN MINING CONGRESS

Mr. COBURN. Will you first, Mr. Witness, identify yourself by stating your name and address?

Mr. CONOVER. My name is Julian D. Conover. I am a mining engineer and a geologist. I am executive vice president of the American Mining Congress, which is a national organization representing the various branches of the mining industry, with headquarters here in Washington.

Mr. COBURN. Your residence is in Washington?

Mr. CONOVER. My residence is in Washington, sir.

Mr. COBURN. Now, Mr. Conover, as I understand it, you have a statement that you would like to read to the committee, and you have provided us with a copy of that statement, have you not, before the hearing?

Mr. CONOVER. That is correct.

Mr. COBURN. Will you please go ahead, then, and read your statement?

Mr. CONOVER. I will be pleased to, sir.

We appreciate the opportunity to appear before you. The mining industry is deeply concerned over the provisions in the draft bill which you are now considering, under which the longstanding principle of congressional control over the disposition of metals and minerals acquired for the stockpile would be abandoned, and such materials would, in effect, be subject to discretionary disposition at any time. We are opposed to the proposed Stockpile Excess Disposition Act of 1962.

We believe that the present stockpiles of strategic and critical minerals, which serve as a ready reserve against the needs of a na-

tional emergency, are a valuable national asset. They represent a substantial investment in time, capital, and labor expended.

In effect, Mr. Chairman, they are the equivalent of a mine above ground all ready to go.

At the same time, if not wisely handled, the stockpiled metals could present a serious threat to what is generally regarded as our basic stockpile of metals and minerals—namely, a sound, efficient, and vigorous mining industry.

This potential danger was carefully considered by the framers of the present Stock Piling Act, who insisted on adequate safeguards against any disposal of stockpiled materials that might disrupt markets and undermine confidence in the future of the mining industry.

The draft bill now before you would make drastic changes in these disposal provisions and the effect of these changes will be discussed in detail by other spokesmen for the mining industry. Meanwhile, the industry considers it important that we set forth the basic facts and reasoning which led up to the disposal provisions in the existing law, and point out wherein the changes now proposed would be harmful to all concerned.

The need for a permanent stockpile of strategic and critical minerals was first given concrete recognition in the Stock Piling Act of 1939 (Public Law 117, 76th Cong.) That act had two major purposes:

(1) To minimize delays and excessive costs in obtaining the minerals needed for defense purposes; and

(2) "To encourage the development of mines and deposits of these materials within the United States * * *" thereby decreasing our dependence upon foreign nations for supplies of these materials in times of national emergency.

It is noteworthy that the 1939 act permitted use or disposition of materials in the stockpile solely for purposes of national defense, or for rotation to prevent deterioration.

Purchases of strategic materials under this act had barely gotten underway prior to the U.S. entry into World War II in December 1941.

Toward the close of World War II, it was realized that the Government would have in its possession substantial quantities of strategic metals and minerals no longer needed for the prosecution of the war. To have thrown these stocks onto the market, as was done following World War I, would have created economic chaos and widespread unemployment in the mining industry. Congress recognized that these stocks represented a national asset of great value—affording a unique opportunity to implement the 1939 act and to start building up our defense stockpile as insurance for the country's future safety.

Accordingly, in the Surplus Property Act of 1944, Congress provided for the transfer of strategic metals and minerals held by the Government to the permanent stockpile, where they would be "locked up" for national defense use. The distinguished chairman of the present subcommittee, Mr. Symington, was the able Chairman of the Surplus Property Board during the critical phase of its operation. He will no doubt recall also that, in defining the objectives of the Surplus Property Act, Congress stressed the need to give maximum aid in reestablishing a normal peacetime economy, to encourage postwar employment opportunities, and "to avoid dislocations of the do-

mestic economy and of international economic relations." The transfer of war surplus metals and minerals to the stockpile helped materially in achieving these objectives.

Congress maintained an active interest in the stockpiling program, and in March 1945, the chairmen of both the Senate and House Military Affairs Committees introduced new, comprehensive stockpiling legislation. Full hearings were held by both committees, and the existing Stock Piling Act (Public Law 520, 79th Cong.) was approved on July 23, 1946. This act reaffirmed the two basic principles of the 1939 act—to provide adequate stockpiles for defense purposes, and to encourage the development of sources of these materials within the United States.

There were no provisions of this act which received more intensive and thorough attention than those relating to the disposal of materials in the stockpile. Congress considered this a matter of paramount importance, and retained firm congressional control over any proposed sales of stockpile materials.

The 1946 act provided that, except as to materials used directly for defense purposes, or materials found to be of no further usefulness in time of war, materials in the stockpile could be disposed of only with "the express approval of the Congress."

At the congressional hearings on this bill, the mining industry pointed out emphatically the potential danger from large accumulations of metals and minerals in Government hands and the necessity for adequate safeguards against disposal. It was made clear that the vesting of discretionary disposal power in any administrative agency would inevitably destroy confidence and present a continuing threat to metal and mineral markets and to the future development of the mining industry.

Congress recognized the importance of the problem and the need to maintain full congressional control over sales from the stockpile. As aptly phrased by Senator Edwin C. Johnson, of Colorado:

> The stockpiles were locked up and Congress kept the key.

This purpose was spelled out in the reports of the Senate and House Military Affairs Committees. Thus, the House committee report stated as follows:

> * * * The existence of discretionary authority to release stockpile materials—except for war purposes, for rotation to prevent deterioration, or by reason of obsolescence—would present a grave threat to the stability of mining operations and to the confidence necessary to maintain a sound and healthy domestic mining industry. It would thus imperil our major source of many of these materials. The provisions of section 3(e) under which Congress retains the key to the stockpile, are designed to minimize this threat.

Why is congressional control so important? This can probably best be summarized by quoting from the remarks of Representative Carl T. Durham, of North Carolina, who was a member of the House Committee on Military Affairs at the time the bill was submitted to the House (Congressional Record, May 31, 1946, p. A–3255):

> A very important point which we should consider in our efforts to protect the United States in the future is that physical stockpiles, particularly of minerals and metals, are only our first line of defense. Back of them, and of even greater importance to our security must be a sound, healthy, and functioning mining industry, equipped and ready to deliver the additional quantities of minerals required for all-out war production. In the past Congress has right-

fully retained control over the stockpiles. This principle of congressional control bears directly also on the future of the mining industry, upon which we must rely for a major part of our mineral supply in an emergency. Unless Congress maintains its control over release of stockpile accumulations, an unhealthy and repressive effect on our domestic mining industry will result. The conferring of discretionary power upon any administrative agency to liquidate portions of the stockpile would inevitably impair, if not destroy, the necessary confidence on the part of those who are responsible for operating and developing our mines. Even though such power were never exercised, the mere fact that it could be, would serve as a continuing threat, discouraging development, expansion, and long-term financing in mining. It is essential that Congress itself retain the key to the stockpiles.

The problem was again considered by Congress in 1954 and 1956, when it provided that materials and metals acquired in exchange for surplus agricultural commodities by purchase or barter should be subject to the same restrictions as the national stockpile. (Public Law 480, 83d Cong., sec. 104(b); Public Law 690, 83d Cong., sec. 103(a); Public Law 540, 84th Cong., sec. 206(a).)

The proposed bill now before you departs completely from the principle established in all previous stockpiling acts, by providing practically complete discretionary authority to dispose of stockpile materials. We believe it is wrong in principle and could do untold harm to the metals and minerals industry. We urge that congressional control over the stockpiles be continued.

The disposal provisions of the 1946 act have served the purpose for which intended. While affording a reasonable measure of confidence to the industry, they provide sufficient flexibility to permit disposals of excess materials when appropriate—as evidenced in the recent action by Congress authorizing the release of substantial quantities of tin, molybdenum, and other raw materials required by industry.

Over the years, the mining industry has consistently maintained that the stockpiles should be dedicated to defense purposes. The industry has warned against heavy stockpile purchases during periods when metal supplies were short. The industry did not advocate the special buying and barter arrangements for lead and zinc which were adopted in lieu of the Tariff Commission's recommendations in 1954. The industry has recognized that metals obtained by the Government under the Defense Production Act program presented a special problem; we have urged that such accumulations be released only after consultation with representatives of the industry involved and with the approval of the appropriate committees of the House and Senate, and that any such disposals be made through established domestic producer-marketing channels.

In reviewing the recently published lists showing the quantities of materials in the stockpiles and the current stockpile objectives, we find wide variations from what we understand to have been the objectives previously set. Over the years, in fact, we understand that the objectives have been revised many times. We realize that concepts of national defense requirements change from time to time; but just as a shortage previously found to exist may now be regarded as a surplus, so an apparent surplus today may develop into a serious shortage tomorrow.

Consequently, before any drastic revision of the long-established congressional policy relating to stockpile disposals is undertaken, we urge that a thorough reappraisal be made of the stockpile objectives.

The currently published stockpile goals seem to be based primarily on actual military and war-related requirements—without allowing for normal industrial use, possible destruction of productive facilities, nor the requirements for reconstruction and rehabilitation following a major conflict.

In making a reappraisal of stockpile objectives, we suggest: First, that the criteria or guidelines used in determining stockpile objectives be made known, in the same way that the actual stockpile figures have now been published; second, that those in industry who have a broad knowledge of production, consumption, the prospect of increased requirements, and other factors, be called in to aid the Government officials concerned in making the needed reappraisal of stockpile requirements. Until this is done, we believe it premature and unwise to consider any legislation setting up new procedures for disposal of the basic materials contained in the stockpile. We reemphasize that the indestructible minerals and metals in the stockpile are an important national asset, and should not be dissipated by hasty action.

As your committee well knows, important branches of the mining industry are now and have for some time been in a depressed condition because of the existence of excess supplies. Obviously, were the Congress to provide for Government sales or other dispositions that would displace the market still available to domestic producers, the result would be still lower prices and further distress and unemployment in the mining areas. This emphasizes the need for caution and careful study before making any changes in the present Stock Pile Act.

In summary, we believe that the long-established policy of maintaining congressional control over disposal of stockpile materials should be retained. We believe that a reexamination of stockpile objectives should be made, in consultation with private industry, before any new disposal legislation is enacted. This matter is of crucial importance both to our national security, and to the continuation of our mining industry as the source of the basic raw materials upon which our national defense and our present-day industrial civilization depend.

The witnesses who follow are thoroughly familiar with various aspects of this problem. We appreciate your courtesy and the opportunity to appear before you.

Senator SYMINGTON. Thank you, Mr. Conover.

Mr. Counsel.

Mr. COBURN. I do not believe I have any further questions at the moment at least.

Senator SYMINGTON. Senator Beall?

Senator BEALL. Just one, Mr. Conover. Are they buying any materials now, is the Government buying anything now?

Mr. CONOVER. I didn't quite get the question, Senator.

Senator BEALL. Is the Government buying any strategic materials now?

Mr. CONOVER. The extent of Government purchases at the present time is very small, so far as we know.

Senator BEALL. Well, I take it that if they did start to release any of the stockpiles it would very definitely hurt the industry as a whole?

Mr. CONOVER. We feel that as to certain materials where there are already excess supplies that even the announcement or the enactment

of legislation making it possible for discretionary dispositions to take place would be very hurtful to the industry.

We feel that the safeguard of requiring any disposal plan to come to Congress for consideration, to be fully considered by the Congress, is extremely important, just as important today as it was in the 1946 act when the whole matter was so very thoroughly reviewed.

Senator BEALL. You testified at that time, didn't you, in 1946?

Mr. CONOVER. I did so.

Senator BEALL. And you said practically the same thing you said today?

Mr. CONOVER. I took the same position then as I do today.

Senator BEALL. Thank you.

Mr. CONOVER. Mr. Chairman, I would volunteer—I know you have asked for constructive suggestions as to what might be done—I would volunteer in connection with your comments this morning as to the 6-month waiting period. We see nothing sacrosanct about the 6-month period.

The 6 months was in the law in connection with materials found to be obsolescent. The same thing carried over as to materials which were not obsolescent but which were found to be in excess of requirements.

So long as we have the requirement that Congress itself consider and pass upon and approve any disposals, we do not believe the 6-month waiting period is required, and we do have confidence that Congress can act when the occasion calls for it in a considerably shorter time, particularly if, as we suggest, the matter is thoroughly reviewed with representatives of the industry involved beforehand and appropriate recommendations are made. That is No. 1.

No. 2, Mr. Chairman, we are as surprised, I believe, as you probably were when the legal ruling was made that no dispositions could be made from the supplemental stockpile. We can see how it came about because the supplemental stockpile does not call for determinations, and the disposal provisions require a revised determination, and if we have not had a determination in the first place, we cannot have a revised determination, and we would see no reason why a technical amendment combining the disposal provisions for the national stockpile and the supplemental stockpile should not be in order.

But still, of course, it should be subject to our view that any such disposals should be controlled by Congress and come before Congress for affirmative action before they are made.

Senator SYMINGTON. Thank you, Mr. Conover, for coming before us today.

You mentioned the Surplus Property Act of 1944.

Mr. CONOVER. Yes, sir.

Senator SYMINGTON. I was not in the Government in 1944.

Mr. CONOVER. You became Administrator in 1945, I believe.

Senator SYMINGTON. I came to the Government in July of 1945, and operated under this act.

Mr. CONOVER. Yes, sir.

Senator SYMINGTON. I think we will both agree there were many specifications in that act we would have changed if we had known what would happen in the future; but that is true of much legislation.

You constantly refer to locks and keys. Is your idea of the stockpile to lock it up and forget it?

Mr. CONOVER. When we speak of key that means that the lock can be opened, but it should be opened only under proper safeguards and after adequate consideration.

Senator SYMINGTON. At one point, page 3, you say "locked up for national defense"; at another point "Senator Johnson stated stockpiles were locked up and Congress kept the key"; at another point, "Congressman Durham said, in effect, that Congress held the key to the stockpile."

Do you feel that there should be no administrative discretion about disposal of surpluses?

Mr. CONOVER. As to materials which still have usefulness for time of war, we still feel as we have consistently, Mr. Chairman, that those matters should come before the Congress itself and Congress should retain the power.

Senator SYMINGTON. On page 5, you say:

> The proposed bill now before you departs completely from the principle established in all previous stockpiling acts, by providing practically complete discretionary authority to dispose of stockpile materials.

Do you mean there should be no discretionary authority by anybody to dispose of stockpile materials?

What do you mean there?

Mr. CONOVER. Instead of turning it over, perhaps I should have said administrative, it should not be subject to administrative discretion.

Senator SYMINGTON. Then your respect for the Congress is such you want to give them complete discretionary authority; but you do not want to give the administrative branch of the Government any discretionary authority, is that correct?

Mr. CONOVER. Well, we probably should have made it clear that we were talking about administrative discretion, blanket authority for an administrator to dispose of it.

It would mean the whole stockpile was hanging over the market subject to disposal, and nobody would know when.

Senator SYMINGTON. Would you give complete discretionary authority to the Congress to purchase for the stockpile?

Mr. CONOVER. You mean—I am not quite sure I get your point.

Senator SYMINGTON. You say this bill departs completely from the principle established in all previous stockpiling acts by providing practically complete discretionary authority to dispose of stockpile materials.

You do not want the administrative branch to have any discretion——

Mr. CONOVER. Well, Mr. Chairman——

Senator SYMINGTON. Let me finish. Do I understand you do not want the administrative branch to have any discretionary authority in disposing of the stockpile?

Mr. CONOVER. As to materials which have usefulness in time of war, that is correct.

Senator SYMINGTON. Do you know of any material that does not have usefulness in time of war?

Mr. CONOVER. You mentioned this morning certain materials which are obsolescent and are no longer useful. The present law does not require congressional approval as to such materials.

Senator SYMINGTON. Well, I am just——

Mr. CONOVER. We are not urging a change.

Senator SYMINGTON. I am anxious to find out how you feel about it.

In other words, you do not want the administrative branch to have any discretionary authority of any kind for the disposal of the stockpile except for obsolescent material; is that correct?

Mr. CONOVER. That is correct. As to other materials we feel the matter should be considered with the industry, and recommendations should then be made to the Congress. We are not insistent in any way upon the 6-month period; but we do feel that it should come to Congress, be the subject of open hearings, and that the Congress should approve before these assets are dissipated.

Senator SYMINGTON. Inasmuch as, except for obsolescent material, you do not want the administrative authority in Government to have any discretionary authority, do you believe it should have discretionary authority in the purchasing of these materials; or should that be passed over to the Congress, too?

Mr. CONOVER. Well, I would have to give a little thought to that, sir. The purchase would be—has been traditionally carried on by an agency delegated for that purpose to meet certain objectives.

The disposal, the letting out on the market, is something that can hurt the industry, and we do not feel there should be any blanket authority such as can be exercised without thorough consideration.

Senator SYMINGTON. I am not sure what your answer is, but assuming we did let Congress purchase these materials, how would you do it? Would you have a special committee of the Appropriations Committee——

Mr. CONOVER. We are not proposing that, sir. We are concerned over the legislation now before us as to the disposal of material.

Senator SYMINGTON. The President, when he asked for these hearings, said we should not continue to have stockpiling a secret matter in peacetime. You still protest we have not gone far enough in disclosure. I am inclined to agree with you.

Mr. CONOVER. Thank you, sir.

Senator SYMINGTON. The President said last January that we would dispose of this property only in an orderly manner, with a minimum effect on the economy—I forget the exact words, but that is pretty close to verbatim.

Nevertheless, today you, as the executive vice president of the American Mining Congress, say you want the administration, with its industrial advisers from private business, before anything is done, to have authority in purchasing, and prices; but you do not want them to have any authority of any kind with respect to possible disposal, even if they realize they made a mistake in buying; is that your position this afternoon?

Mr. CONOVER. I have not addressed myself to the question of purchasing, Mr. Chairman.

Senator SYMINGTON. But you cannot sell unless you buy.

Mr. CONOVER. We are concerned primarily at this point, as I understand it, with what are termed to be surpluses now in the stockpile, and as to those we do feel that we should have full consideration with the opportunity for public hearings and action by Congress.

Senator SYMINGTON. I understand that, but I want to get back to——

Mr. CONOVER. As to the purchases, I think we have a different situation there. You have caught me on a question that I do not know how the Congress could handle the details of all purchases, and I don't see how the Congress could handle the final details of sale. But the plan of disposition and the amounts to be disposed of, we feel should be approved by Congress.

Senator SYMINGTON. I do not want to labor the point, but want to be sure we understand your testimony. When it comes to selling, unless the product is obsolete, you want the administration to have no responsibility and no authority; you want that to reside in Congress. To use your own expression, you want the administration to have no discretionary authority; is that correct?

Mr. CONOVER. We want any—we assume they will use discretion in making recommendations, but we wish any recommendations to come before Congress as Senator Allott mentioned this morning, for full public hearings before any such disposal plan is put into effect.

Senator SYMINGTON. All right.

Now, on page 6 you say:

> The disposal provisions of the 1946 act have served the purpose for which intended. While affording a reasonable measure of confidence to the industry, they provide sufficient flexibility to permit disposals of excess materials when appropriate—as evidenced in the recent action by Congress authorizing the release of substantial quantities of tin, molybdenum, and other raw materials required by industry.

Some material sold only a week or two ago was recommended by Mr. Franklin Floete in January 1961, before the previous administration left office; and everybody has been trying to sell this particular material, because it was considered obsolete.

Nevertheless, we were not able to sell that material because of the nature of current statutes, rules, and regulations, until a few days ago.

Would you call that sufficient flexibility, in a program of this character?

Mr. CONOVER. I made the suggestion, Mr. Chairman, that we do not feel the 6-month notification is needed but that——

Senator SYMINGTON. This was 18 months.

Mr. CONOVER. I know, and some of the materials in there, as I understand, Mr. Chairman, had been recommended only 2 or 3 months or a very short time prior to the Congress taking action. We feel there is——

Senator SYMINGTON. It took us 18 months to sell.

Would you call that sufficient flexibility?

Mr. CONOVER. I would say it was unfortunate that there were those delays. We feel that with consultation with the industry, such as we suggest, that there is no occasion why there need be any such delays as that.

Senator SYMINGTON. On page 6, the middle of the page, you say:

> The industry did not advocate the special buying and barter arrangements for lead and zinc which were adopted in lieu of the Tariff Commission's recommendations in 1954.

What did you advocate?

Mr. CONOVER. We had gone on record in favor of a tariff on lead and zinc which would come off when the price reached a certain point, and which would be applied when the price went below a certain point.

Senator SYMINGTON. So you did not agree to this buying that Senator Dworshak referred to in order to——

Mr. CONOVER. We did not advocate it.

Senator SYMINGTON (continuing). Help unemployment?

Mr. CONOVER. We did not advocate it.

Senator SYMINGTON. You did advocate at that time an increase in the tariff, is that correct?

Mr. CONOVER. An increase in tariff at a certain price point and to come off below a certain price point.

Senator SYMINGTON. On page 6 you say:

> In reviewing the recently published lists showing the quantities of materials in the stockpiles and the current stockpile objectives, we find wide variations from what we understand to have been the objectives previously set. Over the years, in fact, we understand that the objectives have been revised many times.

What is your point in bringing that up?

Mr. CONOVER. Well, the point on that is that concepts of the basis on which stockpile goals will be set have changed up and down, and as we look at some of those objectives, in the case of zinc, for instance, it is now only about a 2-month supply, which seems extremely small if we are going to consider the possibility of our productive facilities being knocked out, and the requirements for reconstruction, rehabilitation, and other factors, and I am very happy that you also feel, Mr. Chairman, that these criteria should be made public and that there should be full consultation on what the stockpile goals should be.

To us it seems that some of those objectives as listed are not what we would think realistic in light of the different types of emergencies that might confront us.

Senator SYMINGTON. Thank you.

Now, on page 7 as well as on page 8 you state that, "those in industry who have a broad knowledge of production, consumption, the prospect of increased requirements," and so forth, "should be called in."

They have been called in in the past, called in by the administration in authority at the time. Aren't these people called in for discussions?

Mr. CONOVER. In determining the stockpiles, sir? Not recently.

Senator SYMINGTON. The determination of the stockpile goals is a function of Government, not of private industry.

Mr. CONOVER. This will be developed further by other witnesses. We feel there is a real body of information which would be helpful to the Government officials.

Senator SYMINGTON. Well, I am sure of that, and I am sure that you would want to supply it to the Government——

Mr. CONOVER. We would.

Senator SYMINGTON (continuing). If the Government asked you to.

But are you implying that the law should state before anything is disposed of by the Government the Government would have to have the approval of private industry?

Mr. CONOVER. We are suggesting that there be proper consultation with private industry.

Senator SYMINGTON. Does that mean that in this administration or the previous administration there has not been proper consultation?

Mr. CONOVER. There has been a lack of consultation in many cases in setting the stockpile goals.

Senator SYMINGTON. Please give us a couple of illustrations.

Mr. CONOVER. I am afraid, Mr. Chairman, I will have to defer on that to the particular witnesses of the industry.

Senator SYMINGTON. But it is your statement. You would not write something you do not know about, would you?

Mr. CONOVER. The position of the industry is this, and the gentlemen who are to appear, following me, have firsthand knowledge of the extent to which they have been called in. This is a summary, and I would suggest that more detailed information be obtained from them.

Senator SYMINGTON. We have had some interesting testimony. We had one witness who was frank. Before he came down here he was vice president of a corporation involved in this business. He saw to it that as much of his particular product as possible was bought by the Government for the stockpile. We admired him for the frankness of his testimony. It clarified a good many things.

We have today in Interior, the Office of Minerals Mobilization, where there are representatives of industry. We have the Business and Defense Services Administration in Commerce. The Secretary of Commerce was vice president of one of our large companies, highly regarded in business.

Mr. CONOVER. I do not mean to imply, Mr. Chairman, any delegation of authority. What we are driving at here is to take advantage of firsthand knowledge of the production and consumption conditions to which the Government officials may have use of to their advantage in arriving at the best possible decision.

Senator SYMINGTON. But are you saying——

Mr. CONOVER. But not delegating authority.

Senator SYMINGTON. Are you saying there is no opportunity for businessmen to present their position to their Government with respect to their products in this field?

Mr. CONOVER. We are speaking solely, we are addressing ourselves solely, to the determination of the stockpile objectives. In other words, when we say so many tons of metal and so many tons of that——

Senator SYMINGTON. Are you saying you do not have that opportunity today?

Mr. CONOVER. That is my understanding, sir. That is my understanding, sir, that there is not the consultation with industry. None of us in industry know even the criteria that are being used, much less have an opportunity to contribute to a discussion of what these goals should be.

Senator SYMINGTON. Interior and the Office of Business and Defense Services Administration of the Department of Commerce are represented by businessmen who are consulted when these decisions are reached?

Mr. CONOVER. I would assume that is probably true.

Senator SYMINGTON. That also includes the objectives which are not known to the public but are known to them?

Mr. CONOVER. Our point is, Senator, that the men who are in daily contact with the metal markets and know the facts at firsthand are in a position to contribute something, and we feel they should be given that opportunity.

Senator SYMINGTON. I could name you a half dozen men prominent in the metals industry who, over a period of years, have come into Government and given Government the great advantage of their experience in the formulation of policy. I can see that. But I do not see how you can give an individual working for a particular group of stockholders who have invested in his company, authority over what the Government should do.

The implication of your statement on pages 7 and 8, as I get it, is that this reexamination of stockpile objectives should be made only after consultation with private industry. That has been going on for years. Private industry has been deeply involved.

If you do not agree, we had better get Mr. Wormser back and some of these people who have served on these industry advisory committees.

Do you think industry ought to have authority in this matter?

Mr. CONOVER. The answer to that, sir, is "No, they should not have authority."

Senator SYMINGTON. That is what we have been trying to find out.

Mr. CONOVER. I thought I made it clear in an earlier answer. I am sorry.

Senator SYMINGTON. Any further question, Mr. Counsel?

Mr. COBURN. I believe not, no.

Senator SYMINGTON. Senator Beall?

Senator BEALL. No.

Senator SYMINGTON. Thank you, Mr. Conover.

Mr. CONOVER. Thank you, sir.

Mr. COBURN. The next witness, Mr. Chairman, is Mr. James Boyd.

Senator SYMINGTON. Mr. Boyd, let me welcome you. It has been many years. I am glad to see you looking so well.

Mr. BOYD. Same to you, sir.

Senator SYMINGTON. It is the custom of this committee to swear all witnesses. Will you raise your right hand? Do you swear that the testimony you give this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BOYD. I do.

Senator SYMINGTON. Thank you.

Proceed, Mr. Counsel.

Mr. COBURN. Will you state your name and address, please, sir?

TESTIMONY OF JAMES BOYD, PRESIDENT, COPPER RANGE CO.

Mr. BOYD. My name is James Boyd. My address is Greenwich, Conn.

Mr. COBURN. Now, Mr. Boyd, I believe you have a written statement that you would like to read to the committee. You have furnished us with a copy of that statement, have you not?

Mr. BOYD. I have, Mr. Coburn.

Mr. COBURN. You proceed, then.

Mr. BOYD. Mr. Chairman, I am the president of the Copper Range Co., and was the Director of the U.S. Bureau of Mines from 1947 to 1951, the Administrator of the Defense Minerals Administration in 1950 and 1951, and Chief of the Metals Branch of the Army and Navy Munitions Board in 1941 and 1942. Among other Government assignments, during these years I served on the Stockpile Advisory Committee of the Defense Department.

This direct experience with the national stockpiles of strategic materials, off and on for over 20 years, has led me to express my opposition to the bill that is before this committee for the reasons which I will describe.

Debates on the ways and means of providing security through stockpiles of strategic materials began soon after World War II. This experience had shown the essentiality of having basic raw materials available in ample supply in times of national emergency. The Military Establishment and some Members of Congress led the debate. It was not until World War II had started in Europe that the Nation got around to establishing a national stockpiling policy by congressional action. This was expressed in Public Law 117 of the 76th Congress in 1939. At this juncture, it is vital to remember that the debates that led to the delays in passing this legislation centered around the danger to markets of the existence of any stockpiles. Objections to the policy were overcome by writing into the statute the safeguard that these stocks would be used only in a national emergency. By this action the Congress assured the industries involved that they could go about their business without constant threat of stocks hanging over their heads. This is an implied promise that should not be broken without adequate safeguards.

There was obviously very little time to carry out this policy before World War II descended on this Nation in all of its fury, but there was time to set in motion the procurement and transportation of natural rubber and tin from the Pacific, without which this Nation would have been in dire straits during the Second World War.

Because we had not established the policy early enough, there were insufficient stocks of the basic raw materials required to feed the war economy. This resulted in stringent efforts to expand the production of strategic materials in this country and in the foreign countries that remained accessible to our industry by sea or land. These were crash programs, highly expensive—not only in dollars but in terms of manpower and the diversion of national effort which were desperately needed in prosecuting the war.

Much of our shipping had to be dedicated, both on sea and in the air, to supplying our war economy with its basic raw materials. Much of the manpower of the mining industry of the United States had to be devoted during this period to finding and bringing new mines into production—many of them on an uneconomic basis—and this contributed an unnecessary allocation of manpower and resources when they were desperately needed in the war effort itself.

The need to resort to stringent allocations, substitution of inferior materials and mighty national and international efforts in this field was burned deeply into the minds of all of those who were engaged in the direction of the productive effort during World War II.

It was inevitable, then, that the attention of the Government and the Congress should be turned to insuring that the Nation should never again face the risks of such wasteful effort. This resulted in Public Law 520 of the 79th Congress in 1946. Subsequently, the attention of many governmental agencies was directed toward the implementation of this necessary and wise act.

With the recalcitrance of the Russians and the continued instability of world affairs, constant pressures were brought upon Government

officials to determine the stockpiling objectives for strategic materials and to fill the stockpiles as quickly as possible. This effort had barely begun when the Korean war was upon us. It was at this point, Mr. Chairman, that you and I became personally involved together in this vitally important undertaking.

It is extremely important to realize that the rapidity with which this Nation reconverted from a war to a peacetime economy placed a demand on basic raw material supplies equal to or, in many cases, greater than that which had occurred during the war itself. On top of this came the Korean war with its problems of raw material supply, again requiring allocations and taxing the resources of the entire free world.

By 1950 we had the enormous demands of a booming civilian economy on top of which were placed the military requirements of the Korean war and (and I should like to underline "and") the need for filling the stockpiling objectives. You will remember that we were not sure at that time whether or not the Korean war would break out into a worldwide conflict with all its associated demands on basic raw materials. In other words, we had the normal requirements of a civilian economy upon which were superimposed the abnormal demands of the military production and the need to fill our stockpiles.

At this time I was Director of the U.S. Bureau of Mines and you were the Director of the National Security Resources Board. These agencies involved in this particular problem were succeeded by the Defense Minerals Administration, the Defense Production Administration, and the Defense Materials Procurement Administration in the General Services Administration.

It was perfectly obvious to all of us that the minerals industry could not undertake, without Government assistance, the vast expansion required to meet these three pyramided requirements and maintain any semblance of order in the production and marketing of these materials. Even with gigantic efforts, the minerals industry was still unable to meet all of the demands upon it, and the Nation had to resort to allocations.

Following the end of the Korean war and the reduction in military requirements, the stockpile demands continued to be superimposed upon a very markedly increased civilian demand and reconstruction in Europe financed by the Marshall plan. Throughout this period the Government insisted on the mineral industry diverting supplies into the stockpiles, even though they were unable to meet all of the demands of the normal economy. This resulted in upward pressures on prices with accompanying dislocations of the industry.

At this point I left the Government and for the past 11 years have been on the producing side of the picture. It was fortunate indeed that the Government encouraged the expansion of much of the mineral production, for civilian requirements needed to bring the economy back to normal required far more raw materials than would be developed in the normal course of economic events. Inevitably, as the stockpiles began to be filled and the civilian requirements leveled off, the artificially stimulated capacity for mineral production engendered by both the normal civilian demands and the abnormal demands of the Korean affair resulted in surplus capacity. This took place not only in the United States, but also in many of the countries which we were attempting to aid through our foreign development programs.

These are the primary reasons why there are surplus capacities available today which have resulted in depressed conditions in many segments of the mining industry, for at the same time the civilian demands fell off, the stockpiles became filled and the Government purchases disappeared from the market, or virtually did so. In other words, the materials now in the stockpiles were put there partly at the expense of the civilian economy and partly from abnormal forced expansion of productive capacity. To return these surpluses to the markets under these circumstances would be an even more severe blow to the industry which performed such gigantic feats when it was required to do so.

But there are other reasons which should prevent us from hasty action in a matter as important as this.

I appreciate your success in having the administration remove part of the secrecy from the stockpiling program, for the need for secrecy on the size of these stockpiles has long since passed. Certainly, when our stockpile objectives were filled, the knowledge of their size would be of no comfort to a potential enemy. Unfortunately, however, I understand that the administration has not seen fit to declassify the means by which the objectives are determined, and I suppose I should be in violation of the law if I were to talk about my knowledge of the past activities in detail.

The basic principles, however, are public knowledge and Government officials have frequently discussed the principles on which the stockpile objectives were calculated. Before the effects of atomic warfare were appreciated and calculated, Government officials determined what would be required to supply a military and essential civilian economy during an emergency period, which the military established for planning purposes at 5 years. From these requirements were subtracted what the Bureau of Mines, the Geological Survey, and the Commerce Department determined was the capacity of the domestic industries in each material, and those supplies which could be transported to this country during such an emergency. The difference was the stockpile objective. The basic objective involved a calculated risk in that they evaluated the various sources from abroad from the point of view of political stability, accessibility, and the vulnerability of lines of transportation.

Since the security of the lines of communication involved naval protection and transportation facilities which could better be used in military action, many felt that if it were possible these risks should be eliminated by raising the stockpile objectives to the point where we would not need to undertake these diversions of manpower and resources to deliver strategic commodities here. The resultant calculation was then referred to as the maximum objective.

As far as I know, few of these maximum objectives were attained. Obviously, as our strategic planning developed under the impact of nuclear warfare, the objectives changed and the Government announced that the emergency period was reduced from 5 to 3 years. It is this judgment which has created some of the surpluses which exist in the stockpiles today. But there were added to these surpluses those arising from the barter programs for agricultural surpluses and the deliveries to the stockpile resulting from the DPA contracts which were let to stimulate the creation of additional capacity.

The result of this change in policy could have almost disastrous effects upon many portions of the extractive industries if the program is not implemented with great care.

Going back to the calculations involved in determining the objectives, we used to consider many political considerations in determining the reliability of foreign sources. Since I have not been directly connected with the Government for over 11 years, I have no means of knowing whether this system is still being followed, but I am relatively sure that the problems arising from economic warfare have had little consideration. If they have, they have not been debated in public. Because of the nuclear impasse, our adversaries have been inexorably building up a ruthless economic war. This warfare is not obvious to the public, but is constantly being felt by many industries. At the same time, many of the emerging nations, which are important sources of raw materials, are making increasing demands for self-sufficiency. They are facing almost insuperable tasks in establishing political stability. It is inevitable that in some of them production will be interrupted. If this takes place in the wrong countries, the economies of Western Europe and the North American countries will be disrupted for lack of the very essential raw materials now in the stockpiles. These two conditions create for us a new type of emergency which, although not military in nature, is equally dangerous to the health of our national economy and that of our allies.

We have no idea of how far the value of the strategic stockpiles has been enhanced under such conditions. The problem has rarely been debated in public and until it is, it appears to me to be extremely unwise to liquidate these extraordinarily valuable resources which provide a measure of safety for us all. As the metals and minerals are relatively indestructible, they constitute a sound national investment to be kept for such emergencies.

I should like to emphasize, Mr. Chairman, that the wide swing in prices for the basic raw materials over the past two decades, and the temporary condition of surplus capacity in many of these industries are the direct result of our success in meeting what we at one time considered to be impossible goals. It was to help alleviate the problems arising from this that the Government a few years ago utilized stockpiling acquisitions in such a way as to soften the economic blows which were descending on the heads of portions of the mining industry.

We should remember that the mining companies during World War II and Korea unstintingly drew on their best ore reserves during times of controlled prices and excess profits taxes, in the national interest. The very nature of their business makes them unable to convert to other products as other industries can, or to replace, without great expense, the resources they used up. The dislocations they now face are the result of national policies—no matter how essential they were. The industry gladly did these things, but it should not be penalized further by unwise policy decisions now.

Although $9 billion sounds like and is an enormous quantity of money, nevertheless most of it, invested in basic raw materials, constitutes a major national asset, for it not only represents money but human effort and industrial capacity. The policy was developed after long years of debate and was administered by a large corps of dedicated public servants. Policies must change with the times. Because these

policies are of great importance to our security and exercise vital influence on one of our most essential industries, they must be made only after open and serious debate.

With all these things in mind, Mr. Chairman, it appears to me to be extremely unwise to authorize the executive branch to dispose of these assets. I personally think the time has now come that the secrecy involved in making these calculations is unnecessary and that the whole matter should be put up for debate and a thorough reappraisal of the stockpiling program undertaken before Congress changes the guidelines.

In summary, the decision before this committee is of far greater moment than the liquidation of some material stockpiles, which appear to be surplus at the moment. The history of mineral industries, of which stockpiling is a vital part, shows that we are constantly faced with great savings in demand and supply. Resources are hard to find, expensive to develop, ephemeral in nature and they are wasting assets, and they cannot be turned on and off rapidly without disastrous results. The economic balance within them is extremely delicate. Therefore, governmental action which might affect them should be undertaken slowly, with great care, and with the intimate advice of those expert in the handling of such affairs. As their products permeate the entire fabric of the economy, their health is closely bound with that of the entire social structure of the Nation. I, therefore, most strongly urge that you do not recommend this bill for passage until a reappraisal, such as I have described, can be undertaken.

Thank you very much for the honor of appearing, Mr. Chairman.

Senator SYMINGTON. We appreciate having your statement.

Mr. Counsel.

Mr. COBURN. Mr. Boyd, I refer you to a statement that is found on page 5 of your statement, where you said:

> Unfortunately, however, I understand that the administration has not seen fit to declassify the means by which the objectives are determined, and I suppose I should be in violation of the law if I were to talk about my knowledge of the past activities in detail.

I would like to ask you a little about that statement to make sure that we get just how far you think we should go here in disclosing how these objectives are set.

Mr. BOYD. Well, Mr. Coburn, in the days when we were building up those stockpile objectives, making the thorough studies required in the original objectives, there were industry advisory committees carefully set up by the Munitions Board. They were comprised of producers and consumers. And they were cleared and permitted to——

Mr. COBURN. I didn't ask you all of this. I only wanted to ask you about your statement here, that the administration has not seen fit to declassify the means by which the objectives are set. Is that your understanding of the situation?

Mr. BOYD. Well, I think that we, the public, must know—we can't know, of course, the detailed strategic question, that is not possible——

Mr. COBURN. I ask you, is it your understanding that the administration has not seen fit to declassify the means by which the objectives are determined?

Mr. BOYD. That is my understanding; yes, Mr. Coburn.

Mr. COBURN. Now, our hearings so far have developed this, that the means of setting the objectives have not been completely declassified, but they have in a very considerable part. Our hearings have disclosed that the objectives are set by comparing the requirements with the supply. You understand that, don't you?

Mr. BOYD. That is right, basically.

Mr. COBURN. And that has developed in our hearings. And these requirements consist of adding up the requirements that are needed in a given material, we will say copper, that is one you know about, that are needed by the Defense Department.

Mr. BOYD. Right.

Mr. COBURN. And they add to that the requirements that are needed by the civilians in wartime. And they add to that the requirements that are needed by industry in wartime. All of those are added to make up the total of the requirements that are needed. All of that has been made public in the hearings so far. Do you believe that we should make public for the future in the management of the stockpile and set this by public debate, or in the Congress, or any other public means, the requirements of the military departments so far as copper is concerned?

Mr. BOYD. No, sir; that is not necessary. We can take the word of the military as to their requirements.

Mr. COBURN. Well, everything else with reference to that has been made public in the hearings so far.

Mr. BOYD. Well, if it has, sir—I haven't had a chance to read the hearings.

Mr. COBURN. Would you have us disclose publicly in the future in the management of the stockpile the needs of industry in time of war for copper, we will say, what those needs amount to?

Mr. BOYD. Very definitely, yes.

Mr. COBURN. You would?

Mr. BOYD. Yes.

Mr. COBURN. And make that public?

Mr. BOYD. Make it public.

Mr. COBURN. You see no reason why that shouldn't be made public?

Mr. BOYD. No, sir.

Mr. COBURN. And the same for civilian uses?

Mr. BOYD. That is right.

Mr. COBURN. But of course, the big item, the big factor in the setting of the requirements during time of war are the military requirements.

Mr. BOYD. The military requirements are the big factor, that is right.

Mr. COBURN. That is the biggest factor of all. And you wouldn't have that made public?

Mr. BOYD. Its means of calculation, no, sir, but the total amount wouldn't hurt, in my opinion.

Mr. COBURN. The objectives in copper have all been made public. So what you are contending for here has already been made public, as I understand it.

Mr. BOYD. If they have, sir. I have not read them.

Mr. COBURN. All of the objectives in the stockpile, copper and every other item except, I think, two or three where we have not——

Senator SYMINGTON. Less than $5 million out of some $9 billion.

Mr. COBURN. There are only two or three items where we are still buying toward our minimum objectives, where the entire facts that you are contending for have not already been made public.

Mr. BOYD. The basis for these calculations or the total calculations?

Mr. COBURN. We have disclosed the objectives here, they have been declassified and made public, and the general means by which the objectives have been set have been made public, such as the fact that requirements for the military, requirements for civilian life and requirements for industries are the factors used in setting the objectives. Do you think we should do more than that?

Mr. BOYD. We should know the basis for those calculations, Mr. Coburn, certainly, because if you would look at some of those objectives today it would be very difficult to determine the basis upon which they were calculated, because they are so much out of line.

Mr. COBURN. Do you think the basis for determining the military requirement should be made public?

Mr. BOYD. You mean the strategic requirements for the military?

Mr. COBURN. Military requirements in time of war.

Mr. BOYD. No.

Mr. COBURN. That is the biggest factor of all. If you don't make that public, and then there isn't any need of making any of the factors public, is there?

Mr. BOYD. Well, you have asked me a double question, Mr. Coburn. You asked me whether or not we should make public the means by which the military make their calculations. And my answer to that is "No." What the total result is does not give away any military secrets.

Mr. COBURN. Do you mean to say we should make public the total amount of copper, we will say, that the military would require in time of war?

Mr. BOYD. Yes.

Senator SYMINGTON. Will counsel yield?

Mr. COBURN. Yes.

Senator SYMINGTON. Would you make public the total amount of uranium we need?

Mr. BOYD. There are always degrees in this, Mr. Chairman. You talk about copper, you talk about lead and zinc, and you talk about uranium. I don't think uranium would be any problem any more.

Senator SYMINGTON. I am surprised, inasmuch as we have declassified 99 percent of this entire program in the last 6 months, we are now in this type discussion. Representatives of industry these past 7 years protested bitterly the declassification of these items; that is, representatives temporarily in Government.

Mr. BOYD. I was not aware of that, sir. I have always felt that we should declassify them.

Mr. COBURN. Well, Mr. Boyd, there is another statement I would like to check with you on in your statement, and that is the one that is contained in the first sentence on page 6, where you say, "As far as I know, few of these maximum objectives were attained." Actually our maximum objectives have been attained with reference to virtually all of the materials in the stockpile, and that has been made public. Don't you understand that?

Mr. BOYD. I understand, sir, when I was cognizant of these things, that there were maximum objectives beyond what have now been published as maximum objectives. There must be a recalculation of which I am not aware.

Mr. COBURN. Is this statement correct where you say: "As far as I know, few of these maximum objectives were attained?" Are you talking about the present maximum objectives?

Mr. BOYD. Remember, sir, these were the maximum objectives calculated on the basis of a 5-year emergency. Now you have maximum objectives based on a 3-year emergency, which is something different.

Mr. COBURN. Is that what you are referring to when you say that the maximum objectives were not attained, the maximum objectives that were based on a 5-year emergency?

Mr. BOYD. If you will follow through my statement here, you will find that my conclusions were derived from the previous maximum objectives.

Mr. COBURN. And not the present objectives?

Mr. BOYD. That is correct.

Mr. COBURN. I see.

Now, Mr. Boyd, may I ask you this. What do you think should be done with the materials that we have in the stockpile? Do you think we should keep them, all of them?

Mr. BOYD. For the moment, or for the time being, Mr. Coburn, I think it is entirely essential that we do. But I don't think we have properly evaluated the changes in the world situation involving the raw material and supplies, I don't think we have really debated them enough.

Let's take the copper industry as an example. A large percentage of the copper comes from Africa, which you know at the moment to be politically unstable. If any one of those countries goes down, Western civilization will be in a serious difficulty for copper. We haven't enough in the Western Hemisphere to meet all of these requirements. Some of these things are brought about by deliberate economic warfare. And we need the strength behind our economy to be able to withstand these onslaughts. We don't know enough about them yet, we need to debate them, to study them and get more information about them. And I think until we do that, reappraise it, it would be a mistake to give up these surpluses which, although they look large, in terms of total annual consumption are not too large. And they could easily be used up.

Mr. COBURN. Do you mean to say that we should not dispose of any surpluses at all until we have made this additional study you are talking about?

Mr. BOYD. Of the basic raw materials.

Mr. COBURN. You wouldn't dispose of any of these materials in the stockpile?

Mr. BOYD. The basic raw materials. There is a difference.

Mr. COBURN. Let's look at tungsten, for instance. We have 161 million pounds of tungsten in the stockpile at the present time, and our national consumption of tungsten runs about 10 million pounds a year. That would be a 16-year supply. Would you say that we ought not to dispose of any tungsten at all at the present time?

Mr. BOYD. Mr. Coburn, you have brought up a question on a material which I think is one of the best materials to illustrate what I am

talking about. Throughout the history of the stockpiling program the requirements for tungsten have fluctuated perhaps more than any other material, because it is a modern material used in high temperatures, with new requirements in industry. And remember, during the war we had the problem of tungsten for the armor-piercing shells. It suddenly appeared. And then it disappeared again as we got new ammunition requirements.

Now, in a modern industry such as we have today we don't know the final requirements as to tungsten. Nobody knows. It is a very valuable material.

Senator SYMINGTON. Will counsel yield?

Mr. COBURN. Yes.

Senator SYMINGTON. You say nobody knows. Well, fundamentally I suppose everyone really knows relatively little. But the best people we had in Government and industry decided together the maximum objective for tungsten should be 50 million pounds. Now we have 161 million pounds and we use about 10 million pounds a year. Under those circumstances, do you think we should sell any tungsten?

Mr. BOYD. No, sir. I think we would have difficulty doing it. In this case, we only have one mine, tungsten mine, left in this country, as I remember it.

Mr. COBURN. I just want to get your views about this, Mr. Boyd. Do you think, then, that under these circumstances we shouldn't sell any tungsten at all?

Mr. BOYD. Well, I have said before, Mr. Coburn, these have all got different problems. I couldn't debate with you on every one of these materials today, because they are all different and I haven't looked at them for some time. But they do need a thorough looking at, and perhaps some of them should be disposed of under great care and control.

Mr. COBURN. Aren't you just putting off the evil day until the time when you finally are going to have to face the fact that some of these things are going to have to be disposed of?

Mr. BOYD. Well, yes. But we need further debate and knowledge of it before we do that.

Mr. COBURN. Debate where, in Congress? Do you think the Congress should debate every one of these disposals?

Mr. BOYD. Well, you can do it either before the Congress or before the administrative agencies and bring the results to the Congress.

Mr. COBURN. Where do you think the debate should be, in the Congress, or before the administrative agencies?

Mr. BOYD. These debates go on, sir, in the private sector of the economy as well as within the Government and in Congress. It takes a national debate to do these things.

Mr. COBURN. As I understand your position, then, at the present time you think we should not dispose of anything in the stockpile?

Mr. BOYD. No, I haven't said that, Mr. Coburn.

Mr. COBURN. I say, at the present time. Do you think that we should not dispose of anything in the stockpile? Isn't that what you said?

Mr. BOYD. It is essentially what I have said, yes. I will stick with that.

Mr. COBURN. And you think we shouldn't dispose of anything for how long? How long is it going to be?

Mr. BOYD. Until we reappraised the whole program in the light of the changing economic conditions and the political conditions in the world.

Mr. COBURN. How long will that take, Mr. Boyd?

Mr. BOYD. A year or so, maybe 2 or 3 years.

Senator SYMINGTON. Maybe 5 or 10?

Mr. BOYD. Maybe 5 or 10. We have too valuable an asset to let go until we are sure of ourselves.

Senator SYMINGTON. You don't mean everything in the stockpile, you couldn't mean that.

Mr. BOYD. That is quite right, Mr. Chairman. You have some things in the stockpile that are obsolescent, that are not longer required.

Senator SYMINGTON. How about rubber, what would you do with rubber?

Mr. BOYD. Rubber is outside my ken. That is a special problem. You have a rotating condition there. The industry advises you on the subject, and I think their advice is probably good. You can't keep that very long anyway, it has to be rotated.

Senator SYMINGTON. How about quartz?

Mr. BOYD. Quartz has become obsolescent.

Senator SYMINGTON. How about diamonds?

Mr. BOYD. Diamonds are not obsolescent, they are still good, but you can produce them today, and the objectives have changed.

Senator SYMINGTON. I don't understand your position. It is so sweeping. I yield back to counsel.

Mr. COBURN. I have no further questions.

Senator SYMINGTON. Senator Thurmond.

Senator THURMOND. Mr. Boyd, Senator Lee Metcalf has submitted a statement, the last paragraph of which reads this way—and I want to get your opinion about what he said as to disposal—I will read the last two paragraphs:

> Therefore my primary concern in this regard is that stockpile materials should not be subject to quick release by administrative action without careful planning and consultation with representatives of the industry involved and the appropriate congressional committees. Most importantly, I believe that surplus stockpile materials should be dispensed with only through regular producer marketing channels so that prices at established market will not be adversely affected.

Are you in accord with that?

Mr. BOYD. Yes, sir.

Senator THURMOND (reading):

> For example, in aluminum and copper there are a relatively small number of competing companies. In copper we should call in the domestic producers, and after ascertaining their respective shares of the market for 5 or 10 previous years, allocate to each of the producers that percentage of the surplus stockpile to be disposed of over a 10-year period. Each company then would be in effect absorbing its share of the surplus. And yet there would be no break in the market, because the same forces would be in control.
>
> Put such a program into operation along with safeguards, that the stockpile surplus could not be utilized in a time of strike, and we could get the surplus away from the overhanging market, and thus stabilize the metal market, dispose of surplus, and maintain orderly marketing channels.

In other words, he is suggesting, as you see here, that the different mineral companies assume the responsibility for this disposal over a 5- or a 10-year period—one witness this morning, I believe, recommended maybe 15- or 20-year period—but at any rate, over a period of years.

Now, what is your thinking with regard to this recommendation? Senator Metcalf comes from a metal State, of course, Montana.

Mr. BOYD. Well, Senator, I must admit that several months ago the same thing occurred to me. That would be the best way to channel these things. I didn't propose it to the Government, because there were so many difficulties that occurred to my mind.

For instance, let's take copper. The amount in surplus in copper is not great. The copper industry would have very little difficulty in disposing of that surplus. But of that copper surplus—it is about 142,000 tons, as I remember—30,000 tons is lake copper, which is produced by the company I represent. In other words, we would have to dispose of that through our channels. And that would be about 6 months of our production.

So there is the difficulty in these things. It needs more study before I would agree in total. But in principle I agree with the Senator.

Senator THURMOND. Did you hear Mr. McConnell's testimony this morning?

Mr. BOYD. Yes, sir.

Senator THURMOND. He is executive vice president and general counsel of Reynolds Metals Co. You heard his recommendations?

Mr. BOYD. Yes, sir.

Senator THURMOND. Do you have any comment on his recommendations?

Mr. BOYD. Well, for the aluminum industry—they have considered this very carefully, and it seems to apply to them—remember, the aluminum industry is different from the other metals, in that mining is a minor part of the industry. They mine high-grade ores whereas the other metals mine low-grade ores, and mining is a much bigger part of the production of copper, lead, and zinc and other things such as tungsten. So the conditions in this industry are a lot different than in the other extractive industries. So the way to dispose of each of these separate materials should be considered very carefully in the industry itself, in the circumspection of the industry itself and its own particular problems.

So in principle, I think it would go through those normal channels. How you would go about it I am not ready to recommend.

Senator THURMOND. So if you had your choice as to giving the President authority to dispose of the metals when he deemed it advisable, or for the companies to assume the responsibilty for disposal as outlined by Senator Metcalf, which course would you choose?

Mr. BOYD. The latter, sir, very definitely.

Senator THURMOND. Thank you. That is all, Mr. Chairman.

Senator SYMINGTON. Mr. Boyd, on page 7 of your interesting statement you say:

> It was to help alleviate the problems arising from this that the Government a few years ago utilized stockpiling acquisitions in such a way as to soften economic blows which were descending on the heads of portions of the mining industry.

What do you mean by that?

Mr. BOYD. Well, sir, I am talking about the thing that was mentioned this morning by one of the Senators.

Senator SYMINGTON. Senator Dworshak?

Mr. BOYD. Senator Dworshak. At that time they were procuring, as best I know—I am not sure of this, but the best I know—they were procuring toward the minimum stockpile objectives. And as far as I know the Government procured them toward the maximum objectives at that time. As far as I know, they didn't go beyond the calculations of the stockpile objectives.

Senator SYMINGTON. Why did they do that?

Mr. BOYD. Because it seemed to the administration that there was no other way to alleviate the difficulties arising from the conditions I have described here.

Senator SYMINGTON. What difficulties?

Mr. BOYD. The creation of surplus capacities through the action of the Government.

Senator SYMINGTON. You mean unemployment and lack of profits?

Mr. BOYD. That is right. In other words, the Government had stimulated this thing to get surplus capacity. The market had dropped because of reduced Government activities, and the industry was in difficulty.

Senator SYMINGTON. So to get the industry out of difficulty, maintain profits, and maintain employment, the decision was to maintain buying, is that correct?

Mr. BOYD. I wasn't involved in that decision, sir, so I can't give you a specific answer to it.

Senator SYMINGTON. I am only asking what you meant by what you said.

Mr. BOYD. That is what I mean, of course.

Senator SYMINGTON. That is what you mean?

Mr. BOYD. Yes.

Senator SYMINGTON. Thank you. Are there any further questions?

(No response.)

Senator SYMINGTON. Thank you Mr. Boyd. It is a pleasure to see you again.

Mr. COBURN. Mr. Chairman, we have two more witnesses—no, we have three—who have indicated that they would like to be heard.

Senator SYMINGTON. We want to hear them. Who is your next witness?

Mr. COBURN. Mr. Simon D. Strauss.

Senator SYMINGTON. Mr. Strauss, will you come forward, please? It is a pleasure to see you again. You have been sworn, have you not?

Mr. STRAUSS. Yes.

Senator SYMINGTON. Will you consider yourself still sworn?

Mr. STRAUSS. Yes, sir.

Mr. COBURN. I think you should identify yourself if you will, Mr. Strauss.

TESTIMONY OF SIMON D. STRAUSS, VICE PRESIDENT IN CHARGE OF SALES, AMERICAN SMELTING & REFINING CO.

Mr. STRAUSS. My name is Simon D. Strauss. I am vice president in charge of sales for the American Smelting & Refining Co., a producer of various mineral raw materials.

Mr. COBURN. And you have a prepared statement that you would like to read to the committee, a copy of which you have provided us?

Mr. STRAUSS. Yes, that is correct, sir.

Mr. COBURN. Will you proceed with your statement, please?

Mr. STRAUSS. Mr. Chairman, I appear in opposition to the proposed Stockpile Excess Disposition Act of 1962.

I am opposed to the bill primarily for two reasons:

One is that the present stockpile goals appear to have been set solely with regard to strict military considerations and do not reflect the realities of the present international military and political situation or the problems that may face this Nation in the event it becomes engaged in a major war.

Until such a study has been made, I believe that disposal of so-called excess stockpiles would be premature and possibly dangerous to the safety of this country.

My second reason for opposing the proposed legislation is that it does not contain adequate safeguards nor does it establish proper yardsticks to prevent economic distress and unemployment arising from hasty and ill-considered disposal plans.

Reverting first to the question of stockpile goals, these have only recently been made a matter of public record. While private industry does not have access to military secrets or military plans, nevertheless, those of us engaged in the production and marketing of raw materials are capable of making some judgments on the reasonableness of stockpile goals in the light of the country's productive capacity, its consumption of strategic materials, and the essentiality of the materials not only in a military effort, but in the economic life of the country.

Using these criteria, it is difficult to reconcile some of the stockpile goals with the realities of this country's industrial machine. Taking only those materials with which I can claim particular familiarity, the targets range from an amount of antimony, for instance, equal to 5½ years' consumption requirements to a target for zinc equal to 2 months' consumption requirements.

It is readily recognized that antimony is a material which is largely imported from oversea sources and that zinc is available in relative abundance from sources within this country and from our land neighbors, Canada and Mexico.

Nevertheless, a target of 178,000 tons of zinc as a stockpile goal makes little or no sense. It may reflect reduced direct military dependence on zinc for weapons. It does not reflect the essential role that zinc would have to play in the reconstruction of an industrial economy that had been subjected to modern nuclear attack.

I am citing zinc only as an example and not because it deserves more consideration than many other materials in the stockpile. Since 1944, the stockpile goal for zinc has varied from a maximum of 1,500,000 tons to a minimum of 178,000 tons, which is the present figure. This goal has been changed nine times over a period of approximately 18 years.

In the light of these frequent changes, can we be certain that the present target figure is the final one? It seems probable that the goal will be changed many times in the future and, if any consideration is given to civilian reconstruction requirements, that it will be substantially increased.

Under these circumstances, as a private citizen as well as a representative of a major zinc producer, I look with great concern on legislation that turns over to the Executive the right to dispose on 30 days' notice of the entire surplus over the present low stockpile target for zinc.

These same considerations apply to other major minerals and metals. I am by no means convinced that the holdings of such materials as aluminum, copper, nickel, lead, manganese, and chrome are excessive.

The fact is that these minerals and metals are wasting assets. They are a one-crop resource. The stockpiles, in effect, are mines in existence above ground—readily available to meet emergency needs in a hurry. The ores that are still in the ground take time and capital and manpower to convert into usable products and in an emergency all three of these may, indeed, be scarce. They were scarce in World War II; they were scarce in the Korean war; and they may well be scarce again.

As a general proposition, therefore, it is hard to see why the Congress should rush into legislation for the disposal of alleged surpluses until a full inquiry has been made as to whether these quantities are, in fact, surpluses when measured against standards which Congress has considered and accepted as valid and appropriate.

Senator SYMINGTON. Mr. Witness, at that point, for clarification, you say "until a full inquiry has been made." The surpluses, as now stated, were set after many months of analysis, inquiry, discussion, and ultimately agreement. I am at a loss to understand why you say, "until a full inquiry has been made as to whether these quantities are in fact surpluses."

We are not allowed to buy under the law in order to help a distressed area. The law does not provide for that.

We have had considerable studies—one I know something about because I started it myself; namely, the President's Materials Policy Commission chaired by Mr. William Paley.

Why are you so suspicious of the surpluses decided on after long study by the Eisenhower and Kennedy administrations?

Mr. STRAUSS. Well, Mr. Chairman, you were out of the room when I read an earlier part of the statement in which I said that, in my opinion, the present target for zinc makes little or no sense.

Senator SYMINGTON. No, I wasn't out of the room. I heard you say that. Inasmuch as you are in the lead and zinc business, I can understand why you are interested in not seeing any lead or zinc sold from the stockpile. But people who established these surpluses, after

careful study, and who are not in the business, might think your opinion wrong.

Mr. STRAUSS. Of course, sir. I couldn't agree, more——

Senator SYMINGTON. Is it the industry that should have the basic authority in connection with using the taxpayers' money, or is it the Government?

Mr. STRAUSS. I think it is basically the Government. But I am raising the point in this presentation that it appears to me that when a target of 178,000 tons is set for zinc, this is evidence to me that these stockpile goals do not take into account the reconstruction problems that this country would face in the event of major destruction in a nuclear war. And as a citizen, I believe that it is within my prerogative—and certainly since I am particularly informed about these markets it is almost my duty before a group such as this one to raise the question—and I would say that 178,000 tons is not an adequate stockpile goal for zinc.

Senator SYMINGTON. It may be your duty, and it is our pleasure to have you. We asked you to come. But when you say something doesn't make any sense that has been worked on to this extent, and suggest a new inquiry be established, I would find out from you what kind of an additional inquiry you want.

Mr. STRAUSS. Well, sir, I would like to know—and in questioning by counsel of the previous witness, Mr. Boyd, the point was raised as to how the stockpile goals were established—I would like to know whether reconstruction requirements in the event of nuclear attack on this country have been taken into account.

Mr. COBURN. I think it has been made public in these hearings that it was not.

Mr. STRAUSS. Right, sir. Now, since that has been made public, I am saying as a citizen and as a producer of zinc—as a representative of a zinc producer—that it would be well for Congress to consider this matter before—and I am saying this with all respect for the people in Government, because I was in Government myself, and I know well the problems of Government—I think it would be well for this administration before it embarks on the disposal of some of these materials which are hard to come by when you want them, and easy to come by when you don't want them, it would be well for this Government to consider the problems of reconstruction in the event of nuclear attack, and to review the targets in the light of those problems.

That in effect is what I meant by the statement to which you referred, Mr. Chairman.

Senator SYMINGTON. For the record, we had one Government expert come up and testify that the stockpile didn't have the import comparable to what it was before, because in the event of a nuclear attack there wouldn't be any plants or machinery left to produce anything from the materials in the stockpile. I take it you don't agree.

Mr. STRAUSS. That is correct. And furthermore, I believe I am correct, sir—I am depending on newspaper accounts—I believe I am correct in the assumption that that particular witness was very careful to state that he was stating his personal opinion. If I am correct, that was Mr. Bramble of the State Department who made that statement.

Senator SYMINGTON. Are you not stating your personal opinion?

Mr. STRAUSS. Yes, I am stating my personal opinion. I understand that he was stating his personal opinion, and he was not giving what might be called an official Government position on this question. And I feel, frankly, since it comes to a question of personality, that I would stake my judgment against Mr. Bramble's.

Senator SYMINGTON. I am inclined to repect your position more than his. He went too far.

Mr. STRAUSS. Thank you very much, sir.

Senator SYMINGTON. But often when a businessman comes into government, and we then want to do anything about a particular problem, he immediately says, "I think that a good idea, but we had better have another Board"—or another Commission or another Committee—or "We had better start an inquiry, and we had better not get into this too hastily."

I think the previous witness, Mr. Boyd, felt maybe he wanted to look at it all for another 10 years.

What is your concept of how long it would take to decide whether we should really do something, or just let it drift along?

Mr. STRAUSS. Like yourself, Mr. Chairman, I am a person who likes action. And I would like to see this question clarified. I believe quite seriously now that this problem if reconstitution of our economy after a possible nuclear attack deserves very careful consideration, particularly if you are thinking in terms of disposing of any of the basic metals which are really materials of construction, because once you have disposed of them you don't reacquire them easily. Furthermore, as is only too unfortunately the case, the materials we have on hand now cost our Government a good deal more than the present market. If we sell them now we are going to drive the market lower. If we turn around at some later date and make a new appraisal of the situation and decide that it is a good idea to have, let's say for the purposes of argument, a year's normal civilian requirements of these major metals in our stockpiles, we may reacquire them at higher cost than we realized on the sale of them.

That is the burden of what I am trying to say here. Perhaps I haven't said it well. But I seriously question the present stockpile goals. I will admit that in doing this I am a David up against the Goliath of the Government bureaucracy. But I am not in agreement with the stockpile goals that have been published recently. I think they understate the case. And I realize that I am open to the possible accusation of self-interest, because of the business that my company is engaged in.

Senator SYMINGTON. We asked you to come down here so as to get your thoughts. You remember what Professor Einstein said when asked:

What do you think will be the weapons used in world war III?

He said:

I don't know, but I will tell you what they will be in world war IV.

Mr. STRAUSS. I recall that he made such a statement, but I don't recall what his reply was.

Senator SYMINGTON. "Rocks."

So if he was as right on that as he was on some other things, if we ever have a nuclear war, which God forbid, maybe we won't have much requirement for these metals.

Everybody today has lodged protests about the proposed law, but, with the exception of the aluminum industry, nobody has come up with any alternative.

I noticed Senator Thurmond was interested in the alternative suggestion in Senator Metcalf's statement, filed for the record. I am interested in that too. With respect to your particular industry, is there any possibility that the lead and zinc industry could work out some plan whereby they would buy back, or have allocated back, these surpluses?

Mr. STRAUSS. I would like, if I may, sir, to take the formula suggested by the aluminum industry and convert it over in terms of the problems facing the lead and zinc industry. The aluminum industry had to cope with a surplus of 729,000 tons, and Mr. McConnell's testimony was that it was roughly a third of the aluminum industry's present annual volume—and they proposed to do this over 15 years. The zinc industry, based on these figures that we have before us, has a surplus to dispose of, I think it is 1,400,000 tons, the exact figure escapes me. The present consumption of zinc in this country is slightly under a million tons a year. So that we have almost 1½ years' requirements. If we take the same ratio, that is, 4 months' requirements distributed over 15 years, if we take the same ratio with the zinc industry, 18 months' requirements would take us something like 72 years to dispose of.

And roughly the same kind of calculations could be made for lead. It is not possible for the lead industry, which is in a condition that is certainly difficult and possibly desperate, to work out a proposal parallel to that of the aluminum industry. But I would say this to you, that periodic review should be made of this situation. I think any disposal of lead or zinc at this time would bring down not only the kind of reactions that you had from several of the mining State Senators today, but reactions also from our friends overseas.

I think the situation should be reviewed. Many of these industries are volatile industries. Conditions do change. The day will come when the Government surpluses can be disposed of. And I would say that at that time no one would be happier to see them out of the way and no longer hanging over the industry than those of us in the business.

Senator SYMINGTON. In your company do you have any foreign lead mines?

Mr. STRAUSS. Yes, sir, we do.

Senator SYMINGTON. How much of the lead you smelt in this country do you ship in from abroad?

Mr. STRAUSS. Well, roughly half of the material we smelt in this country is of foreign origin. Very little of that, however, is from our own mines. This is material that we purchased from other mines. Our foreign lead production is primarily in Mexico.

And here I would like, since you raised this question, to discuss the testimony given this morning by Senator Allott.

Senator SYMINGTON. Before you do that, I want to be sure I don't forget my thought. The three Senators here this morning to testify on this bill all testified for a higher tariff on lead and zinc.

Mr. STRAUSS. Right, sir.

Senator SYMINGTON. Do you support that?

Mr. STRAUSS. Our company has taken the position consistently that a modest increase in tariff is preferable to stockpiling, preferable to subsidy, preferable to quotas.

Senator SYMINGTON. What do you mean, in percentage, by a modest increase?

Mr. STRAUSS. A return to the 1930 rates, is what we have suggested.

Senator SYMINGTON. And roughly, in percentage, what increase would that be?

Mr. STRAUSS. In the case of lead it would be doubling the present rate. In the case of zinc it would be tripling it.

Senator SYMINGTON. And in percentage, what would doubling the present rate mean with respect to the increase in price?

Mr. STRAUSS. The present rate on lead is 1 1/16. Doubling it would take it at 2 1/8. So it would be 1 cent as compared with the present price of 9 1/2 cents.

Senator SYMINGTON. It would be 1 cent compared to the present price?

Mr. STRAUSS. Yes.

Senator SYMINGTON. Thank you.

You said you wanted to discuss something.

Mr. STRAUSS. Senator Allott referred to a smelter in Colorado, you may recall, which had been treating foreign material. The smelter in Colorado, now closed down, belonged to our company. The bulk of the imported ores treated at that plant came from Canada. Some of it may have come on occasion from Peru.

The point the Senator made is that, due to the price situation, it was possible to treat material of foreign origin at a plant located 10,500 feet above sea level, and in the center of the country. But as a result of the imposition of the quota system which has put strict limits on the imports of ores into this country, we have had an insufficient supply of ore to maintain our smelting operations, and we have had to close one of our smelters down.

Senator SYMINGTON. One reason for that is so many mines have closed down, small mines. There is bitter criticism from miners who say that the large companies in this field import their ores, and therefore cut down, or even eliminate, the employment of miners in this country. They add that, in many cases, that is done without regard to defense requirements. And when it comes to defense requirements, I do think we must rely somewhat on permanent Government officials, some of whom have been in this work most of a lifetime.

Some say that much of this stockpile buying is really a method of increasing aid to foreign countries, and that therefore the stockpile is not being utilized in accordance with the statute. The stockpile is a mobilization base for national security, not a further method for helping foreign countries. Actually the law does not say it can be used to help depressed areas.

Mr. STRAUSS. Yes, sir. As to that, Senator, unless we get a clear instruction from our Government, naturally we operate our business as every business organization would, on strictly commercial principles. We paid the same price for the ore of domestic origin as we do for the ore of foreign origin. The foreign miner has to meet a

higher transportation charge, and he has to jump the hurdle of the duty.

Senator SYMINGTON. What do you think of the hundred thousand tons of lead we just imported into our stockpile, through barter, from Canada and Austria?

Mr. STRAUSS. Well, Senator Symington, I was a member, or an adviser, I guess is the word, to the U.S. delegation in Mexico City at the time that that proposal was submitted. I think my views were those of all the other members of the industry group who were present. We were all in opposition to this particular deal. We did not feel that it represented a real step toward the solution of the problem. The problem in lead has been oversupply, overproduction. You don't cure that by transferring an inventory from one person's hands to another.

Senator SYMINGTON. Wasn't the idea that, if it was done, there would be a reduction in the supply of world lead?

Mr. STRAUSS. The two countries that bartered lead agreed to limit their production for a period of the time during which they were making the deliveries for the barter. But these deliveries were only to take place over a period of approximately a year. And the cutback in production on their part was much less than the hundred thousand tons of lead that our Government took over.

Senator SYMINGTON. In addition, other people also went into the production of lead, did they not?

Mr. STRAUSS. Yes, sir. The secret of our market, as most commodity markets, is price. Price is the mechanism that determines how much will be produced and where. And so long as the price is at a certain level, short of the kind of arrangement which the Justice Department frowns on, people produce by and large to their capacity, assuming they can make ends meet at those prices.

Senator SYMINGTON. Senator Thurmond, do you have any questions?

Senator THURMOND. Thank you, Mr. Chairman.

I would just like to inquire, Mr. Strauss, your opinion of Senator Metcalf's recommendation for disposal.

Mr. STRAUSS. I dealt in part with that, Senator Thurmond, when I was replying to the chairman's inquiry as far as lead and zinc are concerned. It would not present any particular problems with regard to the copper industry. But, frankly, as the matter now stands, my recommendations to this committee would be that, first, we make sure that we want to dispose of some of the materials that are presently considered excess. I am personally not convinced that those quantities are really surplus to this country's real needs. I recognize that in saying that I am being very presumptuous and setting myself up as differing with a lot of very expert men in the Government. But I believe they have overlooked this problem of the changed situation in this country resulting from the danger of nuclear attack.

And as Mr. Boyd, the previous witness, testified, there is also the very important matter of economic warfare, the problems of supply of some of these materials from areas which are economically unstable. I do not believe that these most recent targets that have been established take adequate account of those two factors.

So I am personally not so convinced that we have such a large surplus to dispose of.

Senator THURMOND. And that is on lead and zinc?

Mr. STRAUSS. Lead, zinc, copper, aluminum, nickel, manganese, and chrome, were the items I specifically mentioned.

Senator THURMOND. You don't think we have an excess on any of those?

Mr. STRAUSS. That would be my judgment if I were asked to write the ticket. But I am not being asked to.

Senator THURMOND. I am asking you now.

Mr. STRAUSS. Yes, my judgment is that we do not have surpluses of those materials, although I realize that the quantities physically on hand are above the targets that have been set.

Senator THURMOND. You don't think the targets, then, are high enough?

Mr. STRAUSS. That is my point.

Senator THURMOND. You mention aluminum and copper. I understood you to say a few moments ago that maybe this could be used for disposal of aluminum and copper.

Mr. STRAUSS. It would lend itself more readily to those two industries than it would to lead and zinc; yes, sir.

Senator THURMOND. Your thinking on the matter, as I get it, then, is that so far as aluminum and copper and lead and zinc, the targets are not high enough, therefore we have no excess, so we have no problem, and therefore we ought to forget any disposal procedure, is that it in short?

Mr. STRAUSS. That would be my feeling; yes, sir.

Senator THURMOND. And that opinion is based upon your experience and your judgment of the situation?

Mr. STRAUSS. And my judgment of the possible emergency needs of this country; yes, sir.

Senator THURMOND. How long did you serve in Government?

Mr. STRAUSS. I served throughout the period of World War II. I joined the Government in March of 1941, and left the service in December of 1945. I was Mr. William L. Clayton's assistant at the RFC at the start. When he left the RFC to go to the State Department I was Vice President of the Metal Reserve Company.

Senator THURMOND. And during that period—about 4½ years?

Mr. STRAUSS. Four and a half years; yes, sir.

Senator THURMOND. During that period you worked with metals?

Mr. STRAUSS. Yes, sir. I worked with the entire range of strategic materials, metals in the stockpile.

Senator THURMOND. And you realize that if we should have an emergency of any kind that we might need the metals we have without any reduction whatever?

Mr. STRAUSS. I would not make that statement sweeping with regard to every material that is on the stockpile list. I make that statement with regard to the particular commodities of which I have real knowledge, sir.

Senator THURMOND. Lead and zinc specifically?

Mr. STRAUSS. Lead, zinc—but I would add copper, aluminum, nickel, manganese, and chrome, and I would add some of the others that are on the list, sir.

Senator THURMOND. If we are going to dispose of anything in the stockpile, you would recommend that we except those that you named?

Mr. STRAUSS. Well, I would recommend—I would not recommend, naturally, that the U.S. Government act on the advice of a single, not wholly uninterested industrialist. But I would recommend that really these targets—and I recognize the chairman's concern about further delay—but I really would recommend that there be a thoroughgoing reappraisal of the stockpile goals.

Senator THURMOND. Do you know when the last appraisal was made?

Mr. STRAUSS. My recollection is that it was about 1958, or 1956.

Mr. COBURN. They vary, Senator, with the different materials. Frequently many of these objectives were last set to June 30, 1958. But there may have been later objectives with reference to some materials.

Senator THURMOND. Are you forgetting your situation as being connected with the metals business now? Are you giving this opinion as an unbiased, objective citizen, or can you segregate and separate and distinguish between your position as a citizen and your connection with the metal company?

Mr. STRAUSS. I am trying to the best of my ability to overcome the bias which most people would naturally expect me to have. I recognize that that is so. But I am trying to do this based on 35 years of connection with this industry, and knowledge of the feast or famine history of this industry. And at the moment we have an abundance. But I have seen shortages so frequently I can see them coming again, sir.

Senator THURMOND. Of course, you recognize that other people, experts, have set these targets, and they feel that we now have an excess in these various fields?

Mr. STRAUSS. I do recognize that, yes.

Senator THURMOND. And with their opinions you disagree?

Mr. STRAUSS. Yes, I do, sir.

Senator THURMOND. That is all, sir.

Senator SYMINGTON. Mr. Strauss, I was impressed with what you said in executive session the other day. You are frank and have had great experience in this field. And I was impressed with some of the points you made this afternoon; but shudder to contemplate additional inquiries by additional committees, or boards, or commissions.

Mr. STRAUSS. I can well understand that.

Senator SYMINGTON. We interrupted your statement.

Counsel, it is getting late. Tomorrow morning we have a meeting of the full Armed Services Committee. And there are two more witnesses. We will meet tomorrow afternoon, at 2:30, if that suits the witnesses.

In the meantime, would you proceed with the remainder of your statement?

Mr. STRAUSS. Thank you, sir.

Senator SYMINGTON. Then we will adjourn.

Mr. STRAUSS. The present legislation provides authority to dispose of excess materials that are clearly needed by industry or that are obsolescent for technological reasons. In fact, legislation authorizing the disposal of tin, molybdenum, and a number of other materials has been enacted in the current session. Thus the door can be unlocked with the key Congress holds.

I must apologize, Mr. Chairman, for that remark in view of your previous observations.

Assuming, however, that the existence of unneeded surpluses has been clearly demonstrated and that some new procedures for disposal are found to be desirable, then I would say that the proposed bill is not a proper vehicle.

The most important single portion of the proposed legislation is in paragraph F of section 2. This provides that material may be sold on 30 days' notice after publication in the Federal Register and after notice to Congress and to the Armed Services Committee of each House. The only criterion required is that the President must take "due regard to the protection of the United States against avoidable loss and the protection of producers, processors, and consumers against avoidable disruption of their usual markets."

This gives the widest sort of discretion to the administration. It provides no yardstick whatsoever with regard to determination that should be made prior to the decision to sell. No provision is made for consultation with industry. No safeguards are established with respect to price.

If this legislation is enacted it will keep the markets for stockpiled commodities in a constant state of uncertainty and turmoil. The present alleged surpluses will hang around the neck of industry like a millstone for years to come even if no actual releases are made.

The markets for metals and minerals are international markets. It is not possible to isolate them from the effects of disposal of surpluses. Our present administration has repeatedly told the governments of underdeveloped countries of its interest in and concern over their economic problems. There has been constant reiteration of the fact that this administration believes that fluctuating prices for raw materials are one of the chief causes of economic distress in the economies of Latin America, Africa, and Asia.

When President Kennedy announced the launching of the Alliance for Progress program he stressed that fact that we would give consideration to the desirability of establishing international commodity agreements for the purpose of stabilizing raw material prices. Our willingness to examine such agreements was reiterated at a meeting of the foreign ministers of the Organization of American States at Punta del Este in 1961.

If these undertakings are to be more than just empty phrases, then disposal of alleged stockpile surpluses should provide for legislative review and public hearings at which the facts regarding the situation of the individual commodity can be discussed by producers, consumers, and Government officials.

I have said that these markets are international markets. In recent years sales by the Soviet Union of such commodities as aluminum, tin, oil, lead, and zinc have been cited by the European press as causing price difficulties and upsetting normal patterns of trade—particularly because it is not possible for the trade to anticipate when, where or how much would be sold.

The same arguments could apply to sales of excess stockpiled materials if the Executive is given the authority to sell on 30 days' notice without consultation with industry or approval by Congress. Reaction by foreign governments could be just as adverse and criticism just as severe.

As previous witnesses have indicated, the stockpile program was established with the understanding that Congress would hold the key to the stockpiles. A change in the rules now divesting Congress of this authority and placing it in the hands of administrative officials will lead to a serious loss of market confidence. It will undermine existing prices which, in many instances, are at low levels despite sharply rising costs.

The fact is that any Government activity, either buying or selling, in the raw material field has an effect on the market. To speak of the Government operating in commodities with its ponderous bureaucratic machinery without "disrupting markets" is to indulge in wishful thinking. Just as the process of purchasing the materials now in the stockpile had a tendency to increase prices and stimulate new production, so the process of sale—no matter how well conducted—will depress prices and discourage new production.

I will cite a single example. It could be multiplied many times.

At the end of the Korean crisis, the British Government decided to permit the resumption of trading in futures on the London Metal Exchange.

As one factor in the resumption of trading in zinc in January 1953, the British Government arranged that it would sell from its stockpile at a fixed rate of so many thousands of tons of zinc per month, the buyers in most instances being those producers who had originally sold to the British stockpile. On resumption of trading on the London market in January of 1953, the price dropped by 2½ cents a pound from the 14-cent level which had prevailed immediately prior to resumption of open trading. This drop was directly linked to the decision of the British Government to liquidate its holdings. The decline continued so that 5 months later in May there was a further loss of another 2 cents a pound.

This example is not cited with any intention of criticizing the motives or the abilities of the British Government officals involved. Quite the contrary. They made the best decisions they could at the time under the circumstances that then prevailed. My point is simply that the commodity markets are unpredictable, that the prices in the long run are determined by many variables—economic, political, and technological.

Senator SYMINGTON. Do you know the status of the British stockpile of lead and zinc?

Mr. STRAUSS. The British stockpile of lead was approximately 120,000 tons. And the zinc stockpile was something slightly larger than that.

Senator SYMINGTON. We had testimony they have sold their rubber stockpile. What have they done with their lead and zinc stockpile?

Mr. STRAUSS. They have virtually completed the liquidation of the zinc, and they have sold three-quarters of the lead.

Senator SYMINGTON. Is that because they don't believe there will be nuclear war?

Mr. STRAUSS. Well, the original decision was made because they were in financial difficulties, when they started this program in 1953 it was one of the periods when the pound was under pressure, and they decided to liquidate.

Furthermore, of course, they do not have a domestic mining industry, and I suppose for that reason——

Senator SYMINGTON. If they didn't have a domestic mining industry it would be even more important for them to keep their lead and zinc stockpile, wouldn't it?

Mr. STRAUSS. That would be my point of view, sir. I was unhappy about it then, I was unhappy during the whole period of their liquidation, and I am still unhappy about it.

Senator SYMINGTON. You are advising an increase in our stockpile objectives. The British have sold their lead and zinc stockpile. They have sold all their stockpile, according to the best of our testimony so far——

Mr. STRAUSS. As far as I know they have sold them all.

Senator SYMINGTON. And you think that a mistake?

Mr. STRAUSS. I believe that is a mistake; yes, sir.

Senator SYMINGTON. Will you proceed.

Mr. STRAUSS. Thank you.

Those in private industry who buy and sell metals recall the consequences of the heavy hand of Government buying and selling in the past. They are aware that many times factors of "national interest" other than straight economic considerations are the motives for decisions to dispose of or acquire materials. Thus the mere knowledge that the Government will be a buyer—for purposes other than direct consumption—or a seller from a large inventory causes immediate apprehension and concern. It is certain to affect the market.

The hearings that this committee has been holding have had an effect. Enactment of the proposed legislation would have a still more pronounced effect.

Under these circumstances, if irreparable damage to commodity markets is to be avoided, any disposal legislation adopted by Congress must spell out in far greater detail than the present bill the yardsticks by which the Executive determinations are to be made. The final decision as to any particular disposal program should remain with the Congress, as is the case under existing legislation.

The present bill also provides that to the extent the materials now in stockpile are required in the procurement activities of the Government departments and agencies, they may draw upon such excess. The metals would be transferred at the—

fair market value thereof as determined by the Administrator of the General Services Administration.

This provision can mean, in effect, that the Government will cease to purchase the stockpiled commodities for consuming uses until the alleged surpluses have been liquidated. The language is broad enough to encompass not only direct use by our Government, but also, presumably, the provision of commodities to those countries receiving assistance from the United States.

The loss of an outlet with the U.S. Government at this time would be a severe blow to the metal industries now facing an economic situation that is admittedly uncertain. For example, large quantities of copper are currently being provided to the cable industry for the missile program. Aluminum enjoys a major market in aircraft and shipbuilding activities and in Government construction of all kinds. Lead is being used to a considerable extent in the shielding of nuclear vessels and in the provision of storage batteries for submarines, aircraft, and land vehicles.

The copper industry is now curtailing production because supplies appear to be outrunning demand. The aluminum industry is operating on a low margin of profit due to severe price competition. The price of lead is the lowest since the end of World War II; most lead mining operations in this country are being conducted at a loss; and the volume of lead production is at the lowest level in the century.

If these three industries must now face the loss of their current sizable outlets in Government procurement, lower prices and reduced employment are inevitable. Yet the legislation as written leaves it to the discretion of the head of each department or agency to make the determination "to the maximum extent deemed practicable by him." Most of the heads of Government departments or agencies are poorly informed with regard to conditions in the metals and minerals industry and will be motivated solely by the feeling that the Congress wishes them to maximize their use of the alleged Government surpluses.

Senator SYMINGTON. Will you yield for one question there?

Mr. STRAUSS. Certainly.

Senator SYMINGTON. Recently the Navy advertised for 450 tons of lead. A citizen read that we had surplus lead to the tune of hundreds of millions of dollars. And, therefore, he wrote to our counsel, and asked why, instead of the Navy buying lead on the outside, they didn't take it out of the stockpile. The Navy immediately said they would take it out of the stockpile; and thereby the stockpile was reduced by many thousands of dollars' worth of lead.

If I follow your argument, you think that is a mistake?

Mr. STRAUSS. Yes, sir.

Senator SYMINGTON. Will you proceed?

Mr. STRAUSS. Much more could be said with regard to the effect of the proposed legislation on these sensitive markets. I am at your disposal to answer any questions you may have. I can only say that in my judgment the enactment of the proposed bill would put our industry under a cloud from which it might not emerge for many years. More important still, it could well result in the reckless dissipation of present Government holdings of materials that may well be badly needed in a future emergency.

Thank you, sir.

Senator SYMINGTON. In the first place, the President emphasized there would only be orderly disposal. Therefore I think words like "reckless dissipation" are very strong when describing what would happen if the executive branch had a semblance of authority to sell what they have bought.

We have been fooling around with this possible legislation for a good many years. All you do say is, let's study it, which in effect, as you and I both know, really means, let's stall it. The exception is the aluminum industry. They have come in with a solid plan as to how they can move aluminum.

I never did think you would approve this law. But the subcommittee would certainly appreciate from you and from Mr. Boyd, who has experience and knowledge of copper, something constructive as to what this legislation should be.

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You have said what it shouldn't be. You could do us a great service if you would sit down and draft a bill which would make it possible for better handling of these surpluses.

Mr. STRAUSS. Well, Mr. Chairman, I must reiterate what I said earlier, and that is that it is my conviction as a citizen of this country that we must take into consideration the problems arising from the possibility of widespread destruction of our productive facilities.

Senator SYMINGTON. You have said that many times. I respect your opinion. I also respect that of the Joint Chiefs of Staff and the National Security Council and the Commander in Chief and the Armed Services Committee of both Houses. I would hope that you could bring forward some type of legislation that would be constructive instead of letting us continue as we have in recent years.

Mr. STRAUSS. Right, sir.

Well, on page 4—I will plead guilty to the charge of a largely negative approach—but I do feel strongly on the matter. However, on page 4, in the first paragraph, I gave some hint of the things that I think ought to be in such a bill, sir.

One of these is that there ought to be in the bill some provision for a public determination, really. I think this would reassure the market.

Senator SYMINGTON. What do you mean by "a public determination"?

Mr. STRAUSS. A finding by the GSA, or whatever branch of the administration is going to make the recommendation to Congress, that the situation with respect to a particular commodity—let's say with zinc, since we have referred to it frequently today—a finding by the Administrator of the General Services Administration that the stocks of zinc in the hands of producers in this country were at a normal level, were not excessive, as they are today. And what that normal level is, possibly the legislation ought to set up yardsticks as to that, or possibly there ought to be a provision——

Senator SYMINGTON. We are operating on that finding now.

Mr. STRAUSS. I am speaking now of producer stocks, the stocks owned by private industry. In other words, the President has said that he does not wish to disrupt private industry. Well, if any zinc were sold today at a time when the industry is already burdened with excessive stocks, any sale by the Government means that the producers must accumulate additional material to the extent of whatever the Government sale is.

Senator SYMINGTON. Why don't you think, if you wanted to move it in orderly fashion as the President directed, he wouldn't take that into consideration?

Mr. STRAUSS. I am just suggesting that it would reassure the industry if this were spelled out in the law, sir. That is my earnest recommendation to you.

Senator SYMINGTON. You mean spell out the fact that the President would have to look at the producers' inventories before he decided on any sale.

Mr. STRAUSS. Yes, that he would have to make a determination of that kind.

Senator SYMINGTON. Suppose he made determinations. What would happen then?

Mr. STRAUSS. Then I think there ought to be a provision for consultation with industry. I am not suggesting that industry should authorize this; far from it.

Senator SYMINGTON. You want the General Services Administration to get permission as to what should be done. You want the industry to come to a decision as to whether the Government should sell what it owns.

Mr. STRAUSS. No, I think the General Services Administration should consult with industry—and by "industry" I mean consumers as well as producers, and possibly labor as well—and determine the facts. The facts need to be found before a release is made, otherwise you are going to disrupt the market.

Senator SYMINGTON. I referred you to the Industry Advisory Committees in Interior and Commerce on this particular subject we are talking about. Is it your idea that all the businessmen that are on those boards at this should be replaced?

Mr. STRAUSS. Mr. Chairman, I have been a member of the Industry Advisory Committee of the Interior Department since 1953. I have the certificate at home. There has never been a meeting called.

Senator SYMINGTON. Did you ever ask for one?

Mr. STRAUSS. Yes, sir. I repeatedly made the suggestion.

Senator SYMINGTON. To whom?

Mr. STRAUSS. To the various Assistant Secretaries.

Senator SYMINGTON. Name some.

Mr. STRAUSS. Mr. Wormser, Mr. Hardy, and Mr. Kelly, the three people who have held that job.

Senator SYMINGTON. You asked them to have a meeting?

Mr. STRAUSS. I said each time the question came up with regard to tariffs, each time the question came up with regard to international lead-zinc meetings, I said, "I think it is a good idea to reconstitute your Advisory Committee and have a meeting."

Senator SYMINGTON. Who is the Assistant Secretary now?

Mr. STRAUSS. Mr. John M. Kelly, and a very capable and sincere citizen, too. I don't know why he hasn't had a meeting. Maybe the Justice Department doesn't think it is a good idea, I don't know.

Senator SYMINGTON. Have you asked him recently?

Mr. STRUSS. Yes, I have, sir. I raised the question to him with regard to this very matter of stockpile disposal.

Senator SYMINGTON. When did you do that?

Mr. STRAUSS. Well, I am quoting from memory now. I would say 6 weeks, 8 weeks ago.

Senator SYMINGTON. After these hearings started?

Mr. STRAUSS. Yes, sir. Please understand, I am not being critical of these gentlemen, they probably have been told by somebody else that it is not a good idea to have meetings of the committee. But the fact is that industry hadn't been consulted, that is the point I am trying to put across.

Senator SYMINGTON. With all due respect to Mr. Kelly, I do not think the fact that you have been briefed in the problems of the disposal of lead and zinc as a result of these hearings, which would have been the fact 5 or 6 weeks ago, is good reason for the committee's not having called a meeting.

Mr. STRAUSS. This isn't the only occasion on which I have suggested such a meeting.

Senator SYMINGTON. To Mr. Kelly?

Mr. STRAUSS. And to his predecessor, Mr. Hardy.

Senator SYMINGTON. Mr. Counsel, will you write a letter to Mr. Kelly and ask why he doesn't have such a meeting.

Mr. STRAUSS. It is very possible that my membership in this commission has expired. But if so, so far as I know no successor committee has been appointed.

Senator SYMINGTON. We will see if we can get you back free of charge.

Mr. STRAUSS. I do want to emphasize the fact, Mr. Chairman, that in my opinion it should not be the producers alone who are members of these committees, the consumers should be members.

Senator SYMINGTON. It may be that we will want to take a new look based on nuclear war. It has been done. Maybe it should be done again from the standpoint of what you might call defense stockpile planning.

This proposed bill was a result of a good many hours of discussion and consideration of this problem.

You have had experience in both Government and industry. You are an expert in metals. I suggest you get together with the American Mining Congress and come up with a bill.

Mr. STRAUSS. Fine, sir.

Senator SYMINGTON. Very possibly between our suggested bill and your suggested bill we will find some legislation. Unless it is made clear why we have to hold these materials, especially as a lot of them are getting obsolete, you might find something happening that in your opinion would be very unfortunate.

That is an effort to be constructive.

Mr. STRAUSS. Thank you, sir.

Senator SYMINGTON. Mr. Counsel, do you have any questions?

Mr. COBURN. No, that is all.

Senator SYMINGTON. This hearing will adjourn until 2:30 tomorrow afternoon.

(Whereupon, at 5:50 p.m., the subcommittee adjourned, to reconvene at 2:30 p.m., Thursday, July 19, 1962.)

STOCKPILE INVESTIGATION

THURSDAY, JULY 19, 1962

U.S. SENATE,
SUBCOMMITTEE ON THE NATIONAL STOCKPILE
AND NAVAL PETROLEUM RESERVES OF THE
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee (composed of Senators Symington (chairman), Thurmond, Engle, Cannon, Beall, and Bush) met, pursuant to notice, in room 235, Old Senate Office Building, at 2:30 p.m.

Present: Senators Symington (presiding), Thurmond, Cannon, and Bush.

Also present: Richmond C. Coburn, chief counsel to the subcommittee; T. J. May, assistant counsel; J. H. Zimmer, assistant counsel; Edward O. McCue, III, assistant counsel; and James J. Gehrig, special assistant to Senator Symington.

Senator SYMINGTON. The subcommitee hearing will come to order.

Mr. Counsel, you have a witness?

Mr. COBURN. Yes.

Mr. Clark L. Wilson is the next witness.

Senator SYMINGTON. Mr. Wilson, will you raise your right hand?

Do you swear that the testimony you give this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WILSON. I do.

Senator SYMINGTON. Be seated, please.

Proceed, Mr. Counsel.

Mr. COBURN. Mr. Witness, would you first identify yourself by stating your name and address?

TESTIMONY OF CLARK L. WILSON, CHAIRMAN, EMERGENCY LEAD-ZINC COMMITTEE

Mr. WILSON. I am Clark L. Wilson, chairman of the Emergency Lead-Zinc Committee, and I am situated here in Washington, D.C.

Mr. COBURN. I believe you prepared a written statement that you would like to read to the committee, and you have furnished us with copies of that?

Mr. WILSON. Yes, sir.

Mr. COBURN. Will you please do so?

Mr. WILSON. Thank you very much.

Mr. Chairman, incidentally, on the other testimony we had a pretty good amount on lead and zinc, but I thought the committee would like to hear from an old lead and zinc miner and some of the thoughts we have on this particular situation.

We are opposed to the proposed stockpile disposal bill under consideration at this hearing, because we believe that need has not been demonstrated for any disposal of stockpiles, particularly of copper, lead, and zinc. Further, we believe that even if desirability of disposal eventually could be demonstrated, disposal could not be accomplished by the proposed methods without serious disruption of markets in the United States and abroad with attendant detrimental effects on the already beset U.S. mining industry. Disposal without demonstrated need and with detrimental effect on domestic industry can hardly be held to be in the national interest.

Mr. Chairman, the fact is that the public, the Congress, and the industries involved are being asked to consider a new concept of stockpile disposal of so-called surpluses of natural resource materials, based on suggested stockpile needs which appear to be arbitrary and for which there has been no basic explanation of how they have been calculated in relation to estimated supply and demand, and to the best of my knowledge with no consultation with the producing and consuming industries.

Speaking particularly to lead and zinc, these hearings have indicated that over the years the suggested stockpile requirements of these important metals have varied as the shifting sands. There has been no full definition made available to our industry as to just what needs these requirements are meant to include. In fact, one witness discussing lead-zinc objectives before your committee stated that "requirement and supply figures are still classified." The impression is left that present objectives which appear to us to be ridiculously low are based only on military needs for warfare. It is apparent that these can vary over an extremely broad range based on type and length of conflict.

In view of the type of conflict we are led to believe is being considered, it would seem that in addition to military needs during such a time, the requirements for postwar reconstruction should be given a place of high priority in estimating the adequacy of stockpiles. In this sense it is apparent that our stockpiles of metals such as copper, lead and zinc, are really international in scope as many of our allies will need and will expect to share in our supplies of natural resources during any reconstruction period just as they have expected and received our help in the past.

Sources of supply during and following an emergency have been dealt with in similar generality. Your committee has been told that the supply sources for primary lead and zinc ores and metal include domestic, Canadian, and Mexican production, but no factoring has been given on probable availability from each source in event of war. Mines, mills, smelters, and refineries could easily be prime military targets, not only here but in contiguous countries. Secondary metal, particularly in the case of lead, is a large factor in our normal supply, and this material would certainly be vulnerable both from the standpoint of scrap collection and processing during a war. Stockpiled material as a third supply source is reported to be well dispersed around the country, but here again we have no actual knowledge of its safety or vulnerability during a conflict. It is our opinion that for the most part our stockpiles of metals are a reasonable and sensible investment in America's future. Stockpiles of nonperishable metals

in readily transportable and convertible form should be looked upon as tremendous assets and insurance for our national security and not as liabilities as some would class them.

In the present circumstances, we believe and urge that the best course of action is a prompt reappraisal of stockpile objectives under the direction of the Congress, with such appraisal to take into account not only short-term military needs but also the needs that could arise in a period of reconstruction for ourselves and for our allies.

We believe we should approach the matter on the basis of what an adequate stockpile can do for us as a nation in an emergency and not on the basis of what we can do with the stockpile at the present time.

We believe that such reappraisal conducted objectively will demonstrate the great values of stockpiles as a national asset, and we feel that legislative proposals for liquidation of any part of the stockpiles are premature until such evaluation is made.

However, we are here today to comment on a proposal for stockpile disposition, and while we believe it is premature, we must look to the detrimental effect on our national economy should stockpile sales be made in the manner proposed. Lead and zinc are prime examples of this economic problem, and I believe it will be helpful during consideration of this aspect of the problem to briefly summarize the effect of stockpiling on these industries.

The stockpile program was established, as detailed by previous witnesses, to meet objectives established for military needs. Acquisitions for stockpiling were continued during the Korean emergency and during this period added additional strain to an industry already extended to the limit. Following Korea the demand for lead and zinc decreased sharply and prices declined. At this time additional stockpile purchases were made which, in retrospect, turned out to have provided an artificial stimulus to our industry worldwide. As a result, when the Government discontinued acquisitions of lead and zinc for the stockpile, the problem of overproduction facing the industry worldwide was vastly greater than it would have otherwise been. The resulting excess stocks ruined our markets, which, in turn, closed many mines, mills, and smelters, with serious economic loss to employees, mining communities and States throughout our country. Added to this direct loss was the lack of necessary exploration and development that must be maintained to guarantee the ore reserves to perpetuate the lead-zinc industry. Because of the low lead-zinc prices, our economic experience during the past decade has been, and still is, most desperate. Stockpile disposals will eliminate any hope for the needed improvement in the near future.

First, let us look at the effect of stockpile action on lead and zinc prices. The 1954 program to barter and purchase lead-zinc for the stockpile in lieu of tariff increases was objectionable to the industry, but it did affect market prices. The lead price increased from 12.5 cents per pound in 1954 to 16.5 cents in 1956. Cessation of the stockpile program was announced in 1957, and lead dropped to 10.75 cents by mid-1958. The experience for zinc is similar at a lower price scale (1954, 9.25 cents; 1956, 13.5 cents; 1958, 10.5 cents). These price drops were following an acquisition program. It would be catastrophic following a disposal program, and it should be mentioned that

since the announcement of the lead-zinc stockpile hearing, the world price for lead as quoted by the London Metal Exchange has dropped one-half cent per pound to the lowest level since 1946.

The United States was self-sufficient in lead-zinc production prior to World War II. War needs expanded consumption beyond our production capabilities, and imports of both ores and metal became necessary. These imports continued after war needs ceased and adversely affected the domestic price. Prices rallied temporarily during the Korean emergency but again dropped in 1953 as supplies exceeded demand due to continued excessive imports. The mining industry petitioned the Tariff Commission for escape clause action under section 7 of the Trade Agreements Act. On May 24, 1954, the Commission made a unanimous finding that serious injury was resulting from excessive imports, and recommended maximum permissible increase in duties.

We know that some Government departments approved the Tariff Commission action; however, on August 20, 1954, following the suggestions of a State Department recommendation of August 17, 1954, the President advised the Committee on Ways and Means and the Committee on Finance that he would not implement the unanimous recommendations of the Tariff Commission in their May 21, 1954, report (Tariff Commission No. 27). In lieu of accepting the Commission's recommendations, the President instituted increased defense stockpile purchases of these two metals and subsequently initiated barter, pursuant to recommendations of the Cabinet Committee that the strategic stockpile be expanded in the interest of national security. The President further stated that he was directing the Secretary of State to seek recognition by foreign countries, who were principal exporters to the United States, that they would not take any "unfair advantage" of his alternative programs. However, the record now shows that imports for consumption did not decline, and, in fact, increased following the President's letter.

This experience substantiated the industry position that effective import controls as recommended by the Tariff Commission are imperative to provide our industry with mobilization base strength, and that stockpiling and barter are not effective substitutes.

In a series of regulations issued May 28, 1957, the Department of Agriculture essentially stopped all bartering in lead and zinc, which was the major alternate program instituted by the President. In testimony before the Ways and Means Committee August 1, 1957, Mr. Gordon Gray, Director of the Office of Defense Mobilization, announced that the defense stockpile goals for lead and zinc had almost been met and that purchases would cease in the very near future. This statement was again repeated by Mr. Gray in his testimony before the House Appropriations Subcommittee during February 1958. OCDM announced that April 1958 was the last month it would purchase zinc, and lead buying was scheduled to be stopped at the end of June.

Testimony was also presented to the Committee on Ways and Means by Mr. Gray on August 1, 1957, and repeated on February 18, 1958. that the lead-zinc industry was not eligible to seek relief under the national security amendment escape clause (sec. 7(b)) of the Trade Agreements Extension Act of 1955. He stated the reason for his

decision was the existence of very large stocks of both metals in the hands of the Government which were acquired by the two alternative programs instituted by the President when he declined to follow the recommendations of the Tariff Commission.

In his letter to the two congressional committees of August 20, 1954, announcing the stockpile purchase program, the President concluded by stating that if the action he was taking, instead of following the Commission's recommendations, did not accomplish the objectives he sought, that he "will be prepared early next year to consider even more far-reaching measures, and to make appropriate recommendations to the Congress."

Senator SYMINGTON. What were the objectives?

Mr. WILSON. As I recall, some of the correspondence that has been declassified by the Committee mentioned objectives for lead of 350—oh, you mean stockpile objectives?

Senator SYMINGTON. You used the word "objectives." What were the objectives?

Mr. WILSON. Again, we were trying to attain a domestic lead production of 350,000 tons a year and a domestic zinc mine production of 550,000 tons a year.

Senator SYMINGTON. You say "we." Whom do you mean?

Mr. WILSON. Well, the industry accepted those.

I think they were first proposed in some of the correspondence that you had here from Mr. Wormser on behalf of the administration.

Senator SYMINGTON. And that was the objective to which you were referring?

Mr. WILSON. Yes, sir, that has been our objective for several years.

Senator SYMINGTON. I think you said former President Eisenhower——

Mr. WILSON. You mean the President's objective?

Senator SYMINGTON. Let me be sure I understand.

You have it in quotes:

Instead of following the Commission's recommendations, did not accomplish the objectives he sought—

that would be the former President—

that he "will be prepared early next year to consider even more far-reaching measures, and to make appropriate recommendations to the Congress."

My question is:

What were the objectives he sought, to the best of your knowledge?

Mr. WILSON. Yes, sir.

I would imagine that the objective was the sound and stable mining industry that was on a good mobilization base.

And getting down to tonnage, I think these other figures I mentioned would apply.

Senator SYMINGTON. I see. Thank you.

Mr. WILSON. On June 19, 1957, Secretary of the Interior Seaton forwarded to the Congress a bill providing for the suspension of present duties and substituting a series of import excise taxes which would be effective only if the price of lead was below 17 cents and the price of zinc below 14.5 cents.

Hearings were held August 1 and 2, 1957, before the Committee on Ways and Means on H.R. 8257 and similar bills for an import excise tax on lead and zinc. Hearings were also held on a companion bill,

S. 2376, by the Committee on Finance on July 22–24, 1957. The U.S. lead-zinc mining industry concurred in the proposed peril point market prices of 17-cent lead and 14-cent zinc. It also pointed out, however, that the proposed schedule was wholly inadequate to sustain the peril point prices.

Following the hearing, Mr. Jere Cooper, then chairman of the House Ways and Means Committee, informed the President on August 16, 1957, that—

> It is my sincere conviction that you already have authority, previously delegated to you by the Congress in the trade agreements legislation, to afford relief to domestic industries from import competition in appropriate cases. The testimony of your representatives at the public hearings, in conjunction with the written recommendation of the Secretary of the Interior, indicates that the lead and zinc industries properly constitute such a case in the opinion of the administration. The testimony further shows that your present authority is adequate to afford the relief which you have recommended to the Congress.

This was essentially accepted by the President, eliminating our legislative effort for import controls, and the lead-zinc mining industry again petitioned the Tariff Commission for escape clause action, requesting not only increased duties, but also quotas.

On April 24, 1958, the Tariff Commission again unanimously found that the domestic lead-zinc industry was suffering serious injury. Three Commissioners recommended reimposition of the 1930 rate of duty and three Commissioners recommended the maximum increase in duty (50 percent above the 1945 rates) and also recommended the imposition of absolute quotas, based on 50 percent of imports during the period 1953–57.

At the conclusion of the 60-day period, as provided in the present Trade Agreements Act, the President advised the chairman of the Senate Finance Committee and the chairman of the Ways and Means Committee that he was "suspending consideration" of the Commission's recommendations. The President further stated that a final decision would be appropriate after the Congress had completed its consideration of the proposed minerals stabilization plan which was submitted by Secretary of the Interior Seaton.

The Seaton plan provided stabilization payments on domestic production up to 350,000 tons of lead and 550,000 tons of zinc when the market price was below 15.5 cents per pound for lead and 13.5 cents per pound for zinc. An additional limited tonnage payment was to be made when the market prices of lead and zinc were below 17 cents and 14.5 cents per pound respectively. This legislation passed the Senate, but was defeated by the House in August 1958.

Presidential Proclamation No. 3257 of September 22, 1958, established absolute quota restrictions on imports for consumption of unmanufactured lead and zinc, effective October 1, 1958. However, the quota amounts were set at 80 percent of the average annual commercial imports for the base period, much more generous to the importer than recommended by the three Tariff Commissioners. There was no change in basic tariff rates and no provision for quota control of manufactured items.

The industry has been operating under quotas, since that date, and has continued to deteriorate with imports exceeding domestic production, commercial stocks greatly in excess of normal inventories, and market prices substantially below the minimums needed to main-

tain a healthy positon of the industry, much less the "mobilization base" referred to in discussions of mineral purchases under the Stock Piling Act. The price of lead is now lower than at any time since wartime price controls were released in November 1946.

This lack of accomplishment for the domestic lead-zinc miner, under present administrative and executive procedures, is singularly striking since ours is the only industry that has obtained two unanimous findings of injury under the escape clause procedure with accompanying recommendations for corrective tariffs. In addition there have been three investigations (1954, 1960, and 1962) of our industry under section 332 of the Tariff Act of 1930 and another two reports (1960 and 1961) to the President required under Executive Order 10401 reporting on conditions within the industry as affected by the imposition of quotas. The section 332 reports, by law, are informative only. They indicate the economic position of our industry but do not make recommendations for assistance needed by the industry studied; however, the information in these reports does highlight the need for correction of continuing injury due to imports. The statistical information in the two reports under Executive Order 10401 has also reaffirmed that injury from imports continues and the reports recommend no relaxation of the present meager controls.

Mr. Chairman, we have recited this story in some detail as an outstanding example of the economic problems of a strategic industry vital to the U.S. economy and defense that has operated under various corrective proposals except the proper one. Our industry today is in a most desperate situation. I have not intentionally made this a forum to review our problems and propose a solution for the cure, but to make the following point:

Despite any assurances to the contrary, it would be impossible to dispose of stockpiled lead and zinc as proposed in this legislation without serious and lasting disruption of domestic and foreign markets and consequent serious effect on the mines, mills, smelters, and refineries in the United States and throughout the free world, and consequently on their employees and the communities in which they are located. Such action would be highly detrimental to the economy and safety of our Nation.

We recommend and urge this committee to recommend—

(1) That all lead and zinc remain in the stockpile under present congressional controls, with no thought of disposal; and

(2) That under no circumstances should disposal legislation be considered until a thorough reappraisal of objectives has been completed by Congress with the cooperation of the minerals industry and the consumers of its products.

Senator SYMINGTON. Thank you, Mr. Witness.

Why do you think there was this consistent refusal to raise the tariff on lead and zinc?

What are your own thoughts?

Mr. WILSON. Mr. Chairman, in reviewing some of the background material that, again, has been released through your committee, we note—well, we had this press release in March 1954, regarding the President's Minerals Policy Committee, and we get the impression pretty directly here that the first thing they were looking for was to try and have a strategic stockpile of these various minerals and metals that would be needed in war.

In addition to that, you certainly needed to have a mobilization base of the industries that can produce it. The two had to go together.

Senator SYMINGTON. I understand. There was a difference of opinion in the previous administration as to how this matter should be handled.

Secretary Humphrey, who had had experience in the metals and minerals industry, was for an increase in the tariff. The State Department opposed it.

Mr. WILSON. Yes, sir.

Senator SYMINGTON. The stockpile objectives, it is now clear, were increased in order to help the industry. This problem has been up on other commodities in the years I have been in the Senate. Why do they consistently oppose, after the Commission recommends, a tariff increase?

Mr. WILSON. The point I was following, I think, would lead into that, Senator.

Apparently, part of this mobilization base was not only in our own mines, but it was also in some of the mines of these contiguous countries, particularly Canada and Mexico. Naturally, when we got a recommendation on a tariff, that is what we wanted. We had worked for it and did not get it.

We have seen this letter, which you have declassified, from the Secretary of State, and it is pretty clearly outlined there that there were some relationships between the United States and these other foreign countries that had to be maintained, not only for lead and zinc but for some of these other items.

I suppose it was the reasoning that the total national security involved not only lead and zinc, but relationships with these countries.

Therefore, the best thing to do was to not only build the stockpile, but maintain friendly relations with particularly Canada and Mexico, and, as a result, that is the solution that we got.

Senator SYMINGTON. At least part of the decision was to maintain friendly relations with Mexico and Canada? Is that what you are saying?

Mr. WILSON. We wanted the tariff solution because of the long-term solution; that is what we have been working for, long term in——

Senator SYMINGTON. I understand what you wanted. All I asked was why.

Based on your experience, why do you think, as against many other increases in tariffs resulting from Tariff Commission recommendations, in this case they did not increase the tariff?

They bought metals heavily, through subsidy, lead and zinc from outside, instead of increasing the tariff. Certainly you will agree if you take the mines of Missouri, Colorado, Idaho, Oklahoma and others that could produce enough lead and zinc from this country. Is it your feeling that it was a matter of diplomatic relationship, or was it a matter of preferring to continue operating the mines of Mexico and Canada, also on this continent?

Mr. WILSON. Senator, I think they were trying to keep our mines going, but, rather than using it the way we wanted to, they looked at something that involved national security through foreign relations.

Senator SYMINGTON. Trying to keep our smelters going. That would be a little more accurate, would it not?

Mr. WILSON. Actually by purchasing for the stockpile, it did boost the price to the point where the domestic mines could operate. But the problem was it was a short-term program, and when that was over——

Senator SYMINGTON. I am not criticizing what was done, only trying to find out. The tariff would have increased the mining of metal in this country?

Mr. WILSON. That is our goal, yes, sir.

Senator SYMINGTON. I am trying to find out what the reasons were, in your opinion, as to why the Government did what it did. The tariff would increase the mining in this country.

Mr. WILSON. That is right.

Senator SYMINGTON. Hundreds and hundreds of lead mines and zinc mines in this country, based on what my colleagues tell me, are not now operating.

Mr. WILSON. That is correct.

Senator SYMINGTON. The subsidy idea keeps the smelters working, but puts many miners out of work.

Now, I am not discussing whether that is right or wrong. I am wondering why it was handled that way in this case; and with a tariff increase in other cases.

Mr. WILSON. In other words, you mean that this stockpile purchase was a subsidy?

Senator SYMINGTON. Well, it was, was it not?

Mr. WILSON. In a sense.

It elevated the price of the market, but it put something in the national stockpile of value.

Senator SYMINGTON. I have no pride of authorship over the word "subsidy." That is not the point I am trying to make. The important thing is to have the materials here ready to go, in this country.

Was it a matter of diplomatic relationship, or what in your opinion?

Mr. WILSON. All I can do is repeat my other answer, Senator, that, again, they were looking, from these very bulletins that they issued, they were looking to maintain not only our mines, but mines close by us.

As I understand it, the objective was based on production from these three countries. So, therefore, it involved production from U.S. mines as well as Canada and Mexico.

It was a mobilization base tie-in, and it also involved foreign relations, of course.

Senator SYMINGTON. If you wanted to, you could supply all the lead and zinc from this country.

Mr. WILSON. Depending on what consumption they were talking about.

Senator SYMINGTON. I am talking about consumption figures of today.

Mr. WILSON. Unfortunately, I do not think we have those reserves now. But, given the price, I think we would go out and find it, yes, sir. We have that much confidence in our industry.

Senator SYMINGTON. In other words, if the price is such that in addition to the big mines, all the mines would operate——

Mr. WILSON. Then we would do a pretty good job, Senator.

Senator SYMINGTON. Based on the figures I know of, you could handle it in this country.

Mr. WILSON. Of course, we have been maintaining lately that based on the mines we have and the reserves we have, and, as I indicated in my statement, they have suffered, because we have not had the incentive to go find them.

Senator SYMINGTON. Have not had what?

Mr. WILSON. Have not had the incentive, profitwise, to go find them; that we do need some imports.

Of course, we are reasonable enough to accept some imports, but we would like to have our industry stronger and on a better base than it is, or has been for the past 10 years.

Senator SYMINGTON. On the last page of your statement, Mr. Wilson, you say that you do not think there should be any thought of disposal, and you underline the word "thought." Do you think the Government should ever have any assets that it never even thinks about liquidating?

Mr. WILSON. Mr. Chairman, I think it was brought out pretty well yesterday that industry agrees something must be done to reevaluate these objectives, and I understand from the testimony given yesterday that this, I guess, is being done.

Apparently, Mr. McDermott so testified, that these objectives are being looked at again, particularly with the post-nuclear-war needs, and this will be done in a very short time.

Senator SYMINGTON. If we can understand your thinking, we can be more constructive with respect to your problem.

Mr. WILSON. Yes, sir.

Senator SYMINGTON. You recommended in your statement:

"That all lead and zinc remain in the stockpile under present congressional controls, with no thought of disposal," and you underline the word "thought."

Mr. WILSON. Yes, sir.

Senator SYMINGTON. You mean keep it locked up, and not even think about letting it out, on any basis?

Mr. WILSON. We think that we should know what the objectives really are currently before we even begin to think about releasing this.

As pointed out, our markets are affected by even talk on these lines.

Senator SYMINGTON. You have been told what the objectives really are by the Government, but you do not agree with those objectives?

Mr. WILSON. No, sir; we do not agree with those.

Senator SYMINGTON. Do you not have to think about whether or not, under certain conditions, you would be willing to sell some lead and zinc out of the stockpile?

Mr. WILSON. As soon as we have had this thought on the objectives and have had an opportunity to evaluate those again with Congress or the Government, I think then is the time that we would be willing to give some thought to the future.

Senator SYMINGTON. When you have some new objectives?

Mr. WILSON. Well, we are confident enough that in any new survey, that they will find that this objective is going to be different than the one we are now working on.

Senator SYMINGTON. Who will find?

Mr. WILSON. I understand the administrative agencies are working on this.

Senator SYMINGTON. You are pretty confident that they will heavily increase the objectives for lead and zinc?

Mr. WILSON. We think so.

Senator SYMINGTON. And on what do you base that?

Mr. WILSON. It just seems that the objectives are very unrealistic compared to the annual consumption of these materials.

Senator SYMINGTON. These objectives were set during the previous administration; and have been reaffirmed by this administration.

What is the industry approach now to this?

Mr. WILSON. Well, again, I think this was pretty well discussed yesterday.

Senator SYMINGTON. There is no reason why we cannot discuss it today.

Mr. WILSON. No. I would like to reiterate what was said:

That we think there can be——

Senator SYMINGTON. I am interested in your opinion. You made a pretty flat assertion, so I am more interested in your opinion than that of the previous witnesses. When they were on, the committee was interested in their opinion. Now we are interested in your opinion.

Mr. WILSON. Fine. I agree that I think there should be some conference between selected individuals in the industry, both producers and consumers, with these people that are determining Government objectives.

Senator SYMINGTON. And who is going to select them? You say "selected individuals." Who does the selecting?

Mr. WILSON. Well, I believe that the proper authority in the Government can contact some representatives in the mining industry and, between them, they can choose people that have the knowledge, experience, and ability to do these things.

Senator SYMINGTON. Who would you suggest in the Government should do that?

Mr. WILSON. I imagine it would be the Office of Emergency Planning, but I am not qualified to make that recommendation.

Senator SYMINGTON. We put in the record yesterday two groups of advisers from the trade: one in the Department of the Interior, the other in the Department of Commerce.

Mr. WILSON. Yes, sir.

Senator SYMINGTON. That were appointed and working with the Department of the Interior and the Department of Commerce.

Do you want additional people besides those people?

Mr. WILSON. Well, again, that group in Interior is rather an old group of appointees, and I think it would be probably worthwhile to look that list over and reevaluate it.

Senator SYMINGTON. Change them around?

Mr. WILSON. Well, depending on who is there.

In fact, it was even indicated that maybe it is not legal any more, at least currently active.

Senator SYMINGTON. If it is not legal, you do not want it, do you?

Mr. WILSON. I will take that word back, Senator.

Senator SYMINGTON. What I cannot get through my own mind—and I do not want to belabor it—but if we are going to have some legislation, we would want legislation satisfactory to you as well as to ourselves.

In the last 2 or 3 days I have been hearing a lot about this new appraisal, raising stockpile estimates.

Everybody seems to assume that it has already been decided on. If you have any inside information you could give this committee we would like to have it.

Mr. WILSON. Mr. Chairman, I understand that Mr. McDermott testified before the Banking and Currency Committee, I think 2 days ago, and indicated there that such a reappraisal was now currently being made.

Senator SYMINGTON. Yes, but he did not indicate any increase.

Mr. WILSON. No, but, again, being in the industry, we just feel that those figures are very low compared to an annual consumption figure.

Senator SYMINGTON. You just hope that it is going to be true, because I have asked Mr. McDermott and he said "No," that he did not know of any reason the objectives should be increased.

Mr. WILSON. Our next step again, of course, is if we could have some consultations so that we could better understand what these figures are based on and what they mean.

Senator SYMINGTON. I wanted to find out if it was going to be persuasion; if you are going to persuade, there must be some thought on the matter.

Mr. WILSON. Well, of course, we have not been invited to persuade, Senator Symington, but we would like to have an opportunity to participate in some of these discussions on objectives.

Senator SYMINGTON. Have you asked?

Mr. WILSON. Not that I know of.

Senator SYMINGTON. How can they tell you want to comment, if you do not ask? You cannot get an invitation unless you ask. Mr. McDermott seems to be an able man to me. If you want to see him, I am sure he would see you.

Mr. WILSON. If you do not want to pass our invitation along, sir, we will be glad to tackle him. We will make the invitation.

Senator SYMINGTON. That would be a good idea. We would like to find out if your belief in much larger stockpile objectives has any justification.

I should think, if you are going to take this position, you would want to see the Director of OEP as soon as you could.

Mr. WILSON. Mr. Chairman, I will certainly take your suggestion back to the industry and see if we can do something about it.

Senator SYMINGTON. We want to get this matter worked out. If we had this type and character of hearings 5 or 6 years ago, the position of the lead and zinc industry would be a lot better than it is today.

Mr. WILSON. We appreciate what you are trying to do here.

Senator SYMINGTON. President Kennedy said he did not want to have anything but orderly disposal.

Mr. WILSON. Yes, sir.

Senator SYMINGTON. Orderly disposal, presumably, if there was any disposal, would be the kind you would like.

Is that a fair statement?

Mr. WILSON. Yes, sir.

Senator SYMINGTON. Why do you think disposal by the Congress would be so much more orderly than disposal by the executive branch?

Mr. WILSON. Well, I think the Congress first gets its direct advice from probably a broader spectrum of the people involved across the United States, and your decisions probably more nearly represent what the people of the United States are thinking.

I believe the Executive is in a position where he, of course, certainly has advisers, but perhaps they do not have the close contact that you do.

Senator SYMINGTON. Would you not agree the President has a broader spectrum than those from the mining States?

Mr. WILSON. Of course, naturally, we are biased along certain lines, and we get back to this decision that was made in 1954.

We certainly wanted a certain thing, but there were other things involved in international relations.

Senator SYMINGTON. You would not, by any chance, feel that, inasmuch as it took 18 months under present legislation to sell unwanted material everybody agreed should be sold, we could just rock along?

Mr. WILSON. Of course, I was under the impression that a substantial part of the 18 months was taken up in the preliminary administrative determination of these things.

Senator SYMINGTON. It was down here many months. I think 14 months.

Mr. COBURN. About 14 finally, yes.

Senator SYMINGTON. Of course, everything that was in the national stockpile automatically had a 6-month wait.

Mr. WILSON. Of course, we agree that in case of emergency the Executive certainly should have the power to use these things, but we think, other than that, that there certainly should be some controls that we can use through Congress to assure of this orderly disposal.

Senator SYMINGTON. Inasmuch as some of the more important people in Congress have emphasized the importance of rapid sale of any surplus to help balance the budget, and inasmuch as the President has gone on record that any sales should be only on an orderly basis, I wonder why the industry puts all its chips on congressional decision.

Mr. WILSON. I guess, basically, we come back to our confidence in Congress, Senator.

Senator SYMINGTON. If you want to lay it all in the lap of Congress, that is one way to look at it.

Mr. WILSON. We have always gotten pretty good reception by Congress and its agencies.

Senator SYMINGTON. You have also had pretty good reception in stockpile purchases, too, over recent years, from the executive branch.

Mr. WILSON. But actually, again, that was something that we did not ask for. We asked for something through the Tariff Commission, which is one of your agencies, and we were well received and well dealt with. We are still sorry we did not get acceptance of their proposals.

Senator SYMINGTON. Maybe you will have better luck with this administration.

Mr. WILSON. We are certainly looking forward to that, Senator.

Senator SYMINGTON. Mr. Counsel, have you questions?

Mr. COBURN. Yes, Mr. Chairman, I have a few.

Mr. Wilson, other of the witnesses from the Mining Congress who appeared here yesterday took the position that they thought that any

disposal from the stockpile should be controlled by the Congress rather than the executive branch of the Government, and you, of course, have taken that position, too, today.

But there is one thing in your statement that perhaps went further than the other witnesses on yesterday went, and I would like to ask you about it.

At the bottom of page 2 and running over to the top of page 3 you say this:

> We believe and urge that the best course of action is a prompt reappraisal of stockpile objectives under the direction of the Congress.

So that, as I understand you, your position is that you feel that not only should the disposals be controlled by the Congress rather than the executive, but you think the objectives to the stockpile should be set by the Congress rather than by OEP as presently?

Mr. WILSON. I would suppose, Mr. Coburn, that some of these administrative agencies are certainly going to have to do the groundwork, which I understand they are doing. But we think it very logical that the final figures they come up with should also be looked at by the Congress, as well as checked by the industry, as we have already previously indicated.

Mr. COBURN. As you know, the policy has been throughout the stockpile for the objectives of the stockpile to be set by an administrative agency.

That is true, is it not?

Mr. WILSON. That was the testimony I heard, yes, sir.

Mr. COBURN. That is the history of the stockpile, and there is no question about that?

Mr. WILSON. Yes. sir.

Mr. COBURN. The objectives toward which the stockpile purchases were made have, since the very first, been set by an administrative agency and not by the Congress. You understand that?

Mr. WILSON. Yes.

Mr. COBURN. At the present time it is OEP that does that?

Mr. WILSON. Yes.

Mr. COBURN. Now, would you recommend that these objectives should be set by the Congress rather than the OEP?

Mr. WILSON. We certainly think that once an objective is set by any administrative agency, it should come to Congress for their consultation and approval.

Mr. COBURN. I am not arguing with you about this, but I think it might be profitable and informative to the committee to think about it a little bit.

We have about 75 items in the stockpile, and the Congress is pretty busy, as it is now. Do you think that the responsibility should be in the Congress to fix and change and have under constant study the objectives for each one of those items?

Mr. WILSON. Well, I would think that Congress, again working with these administrative agencies, and probably some industry representation, could expedite this to the point where it could be handled.

Mr. COBURN. By the Congress?

Mr. WILSON. Yes, sir.

Mr. COBURN. So that the Congress, for each one of those items in the stockpile, would be able to set the objective and keep under constant study any changes?

Mr. WILSON. I would think so, yes, sir.

Mr. COBURN. There seemed to me yesterday to be some lack of understanding on the part of the industry people with reference to what has been made public in the course of these hearings with reference to the setting of the objectives for the stockpile.

I thought perhaps it might be helpful if we discussed that a moment, and whether anything more should be done with reference to making the setting of the objectives public than what has already been done.

The hearings so far, Mr. Wilson, have shown that the method of establishing these objectives has been made public. Do you understand that?

Mr. WILSON. Yes, sir.

Mr. COBURN. Does the industry understand that?

Mr. WILSON. Yes, sir.

Mr. COBURN. In other words, the hearings so far have shown that these objectives are set by establishing the national requirements during war, and establishing the national supply for a given commodity during a war period, and balancing the one against the other.

You understand that?

Mr. WILSON. Yes, sir; I understand that.

Mr. COBURN. That all has been made public.

Mr. WILSON. Yes, sir.

Mr. COBURN. And it has also been made public that the 1-year consumption rule that was established in 1954 was given up in 1958.

Mr. WILSON. Yes, sir.

Mr. COBURN. So that that is no longer an alternative method of fixing the objective for material in the stockpile. The industry understands that, do they not?

Mr. WILSON. Yes, sir.

Mr. COBURN. Now, there seemed to be considerable complaint on the part of the industry yesterday that the method of fixing the objectives has not been made public as fully as it should be.

Do you share that view?

Mr. WILSON. Mr. Coburn, I think what is being referred to there is the quote that I had on page 2, the third line of my testimony, where I say, "The requirement and supply figures are still classified."

As I recall, the representative from OEP mentioned this. Sure, we get the final balance, but the thing that bothers us is we do not have any idea how that balance is arrived at. They do say that there is a supply from Canada and Mexico and the United States.

But there is no factoring given on how much from each place.

The same way with supply. They do not indicate—and this was discussed yesterday—how much goes to military, how much goes to normal civilian, how much goes to reconstruction.

And it is that basic information that we think needs review and perhaps consultation again with the industry and with the Congress.

Mr. COBURN. The hearings so far have shown that with reference to establishing these objectives, the national requirements in time of war for the military needs are established by OEP.

You understand that, do you not?

Mr. WILSON. Yes, sir.

Mr. COBURN. And then the national requirements with reference to industry needs in time of war are established after study by OEP.

You understand that?

Mr. WILSON. Now, I understood yesterday, did you not state that the civilian requirements were not included?

Mr. COBURN. No, I did not so state.

I said that the rehabilitation——

Mr. WILSON. Rehabilitation?

Mr. COBURN. The present objectives are not based on any calculations as to how much of a given commodity, say copper, would be required to rehabilitate the country after an atomic attack.

I said that.

Mr. WILSON. I stand corrected.

Mr. COBURN. But to get back now to what I started to ask you, simply so we can think this thing through a little bit, because we want the benefit of your views, and we also want the industry to understand actually what has been made public in the course of these hearings and not have any misunderstanding in that respect.

The hearings so far have shown that these objectives are established by first determining over in OEP the requirements of the military in time of war.

You understand that?

Mr. WILSON. Yes, sir.

Mr. COBURN. And those requirements, those figures, have not been made public.

You understand that.

And the requirements are also studied and determined in time of war for civilian use.

You understand that?

Mr. WILSON. Yes, sir.

Mr. COBURN. But, again, that figure has not been made public.

And then also the requirements for industry in time of war are studied and finally toted up. You understand that, do you not?

But that has not been made public, the figure. And then all of those three items are added together and you get the total requirements of the Nation for a period of 1 year in time of war.

Now, the industry understands that, do they not?

Mr. WILSON. Yes, sir.

Mr. COBURN. And then, of course, that is applied against the number of years of war that it is now contemplated that we should be prepared for——

Mr. WILSON. Right.

Mr. COBURN (continuing). To get the final total requirements of the Nation in establishing the objectives. You understand that?

Mr. WILSON. Yes, sir.

Mr. COBURN. Then against that, the OEP determines what the national supply of a given commodity will be during the same period of time, and if there is any deficit, that becomes the objective.

Now, that method has all been made public in the course of these hearings, but the figures, the individual figures, have not been divulged.

You understand that, do you not?

Mr. WILSON. Yes, sir; I appreciate that.

Mr. COBURN. Now, then, let us think about this a little bit.

Do you feel that the requirements for the military in time of war, for, let us say, lead, should be made public?

Mr. WILSON. Mr. Coburn, again, I believe that representatives of our industry, both producers and consumers, qualified representatives, should certainly be allowed to examine and study these figures with—if you say the OEP—with that group and, say, with some Members of Congress, so that we understand and appreciate what they are based on, and also get our ideas as to whether or not these are realistic.

I think this is what we are arguing about.

Mr. COBURN. We are not even arguing. I am not arguing with you. I do not want you to misunderstand my attitude in asking you these questions.

Mr. WILSON. Pardon me, I will say "discussing."

Mr. COBURN. Yes.

I may seem to be pressing you a little and examining you rather closely. I do not intend to make you feel that I am trying to harass you in any way.

Mr. WILSON. I appreciate that.

Mr. COBURN. I am just trying to think this out with you a little bit, because I think it is quite a debatable question that ought to be thought out well by everybody.

You say, then, as I understand it, that the industry people feel that certain qualified representatives of industry should discuss this matter of the actual figures and the setting of the figures as to the military requirements, let us say for lead, during the period of war concept with OEP?

Mr. WILSON. I think we should have that opportunity, yes, sir.

Mr. COBURN. Now, there are some people who think that a thing of that kind, a figure of that kind, is a very, very sensitive figure, and one that should not be made public under any circumstances at all.

How do you feel about that?

Mr. WILSON. Well, I do not think it has to be public, Mr. Coburn.

Actually, the Department of the Interior has a group of people who are already in the executive reserve. They have been examined and checked and cleared. If anything happens, this group supposedly will take over the industry for the Government following the conflict.

Now, I am not saying that they should be the particular group that does this, but I mean a similar group could certainly sit down and discuss these with Government, knowing that the subject is very confidential and will be kept that way, but still being able to give the OEP and any other agencies involved the benefit of their knowledge of how this industry operates, and what would happen under certain conditions.

Mr. COBURN. Now, I can see how it might be helpful to get the benefit of the views of industry representatives as to what this figure should be by way of recommendation. But what do you think of this, Mr. Wilson?

When it comes to arriving at the figure itself, do you think that knowledge should be shared by OEP with anybody on the outside, or do you think that would divulge a military secret that would not be in the national interest?

Mr. WILSON. I certainly believe that before we accept, we, as the industry, accept these objectives, and then later expect to talk about disposal, that we should be satisfied that the basic figures are all right.

And this selected group——

Mr. COBURN. Excuse me, you are not answering the question. You did not answer my question.

Mr. WILSON. I am sorry.

Mr. COBURN. Listen to me, will you?

Mr. WILSON. Yes, sir.

Mr. COBURN. I said a moment ago that I thought it might be helpful to OEP to get the benefit of the recommendations of industry people as to what the military requirements for lead, we will say, during the war period should be, what the figures should be.

But do you think that it would be in the national interest now for that figure to be divulged by OEP, its decision as to what that figure is should be divulged, to people outside of OEP in the industry where it might become at least semipublic knowledge?

I just would like to get your view on that.

Mr. WILSON. Again, I think if you have the right group of industry people in this, they could participate in this without any threat to the security of the United States.

Senator SYMINGTON. So your answer is yes?

Mr. WILSON. Yes, sir.

Senator SYMINGTON. Will counsel yield?

Mr. COBURN. Yes.

Senator SYMINGTON. To estimate the maximum stockpile objective, it is taken up with the Joint Chiefs of Staff, with the Department of Defense, with all of the other various agencies involved, including the National Security Council and OEP. As a result of this procedure, the maximum stockpile objective is now estimated to be 286,000 tons. We have on hand 1,385,000 tons of lead.

As I understand it, you do not agree with the Chiefs or the OEP, or the Department of the Interior, or the Department of Commerce, or Defense, or State, or the National Security Council. You believe, that if you talk with some of these people, they will agree with you that the maximum stockpile objective should not be 286,000, but should be 1,385,000, is that correct?

Mr. WILSON. I do not know what the figure will come out, Senator, but we feel that this figure is way too low.

Senator SYMINGTON. So actually what you are saying is that not only is 286,000 not enough, but 1,385,000 is not enough, is that correct?

Mr. WILSON. No, sir. We do not know what the total figure might be.

Senator SYMINGTON. When you say "too low," you were referring to the 286,000?

Mr. WILSON. That is right.

Senator SYMINGTON. I ask you in all sincerity, based on the information available to State, Defense, Interior, Commerce, OEP itself, NSC, CIA, name them all, how could you feel your opinion would be better than theirs?

Mr. WILSON. Well, Senator, I don't know those people as well as I know my own industry. I know we have people that have spent their lives in not only producing this stuff and refining it, but also in estimating what the country's needs are going to be.

I just feel that they might have some thoughts that could be useful.

Senator SYMINGTON. We have had Mr. Wormser down here probably as experienced in lead and zinc as any man; and at the time he

was in the administration, he could not have been any closer to the problem. While he was here they cut the objectives very heavily.

To the best of my knowledge, there was no protest from industry at that time.

Mr. WILSON. I am sorry, Senator, I was not involved in that at that time. I just could not answer your question.

Mr. COBURN. Just this one thing more, Mr. Chairman, and then I will subside.

Mr. Wilson, you know about BDSA, do you not?

Mr. WILSON. Yes, sir.

Mr. COBURN. The Division of the Department of Commerce?

Mr. WILSON. Yes, sir.

Mr. COBURN. BDSA, the industry people there come into BDSA and serve for 6 months at a time, do they not?

Mr. WILSON. I am not familiar with that program.

Mr. COBURN. That, I think, has been developed by the record here so far; that men who are active in, we will say the nickel business or the lead business or the zinc business or copper, or whatever metal, will come here for 6 months and serve with BDSA.

Then they leave and another similarly experienced person takes their place.

So that BDSA has not only staff people, but these industry people who come into BDSA and serve there.

It has been the testimony so far in other respects that BDSA makes its recommendations to OEP as to the supplies of minerals and, doubtless, the requirements of minerals in time of war.

Are you familiar with that?

Mr. WILSON. No, sir, I am not.

Mr. COBURN. Does that not sound pretty much like what you are contending we ought to do here?

Mr. WILSON. It is one other version of it. I think here we are talking about an industry group that will finally advise the group that is making this final decision. Of course, maybe this can be done through this industry group that is in Interior, too. Maybe that is another area.

Mr. COBURN. You do not have in mind that the industry group which you are advocating would make the decision as to the amount of lead, do you, for instance, that we should have on hand during a war period?

Mr. WILSON. I think the whole argument—pardon me, the whole discussion—revolves around, again, that we feel our people are competent to evaluate some of this supply and requirement need, and we would like to be in a position where we could certainly advise and consult and discuss this with the agencies and the Members of Congress that would be involved.

Mr. COBURN. As I understand it, that is being done by BDSA, with these industry representatives on their staff, with OEP now?

Mr. WILSON. I am not familiar with any lead and zinc representatives, for instance, from industry on BDSA. I do not believe there is one from the industry.

Senator SYMINGTON. Are you saying that in the Eisenhower administration there was no consultation with the industry, and that in the Kennedy administration there is no consultation with industry on lead and zinc?

Mr. WILSON. No, sir. We do have some consultation, but it is probably on another basis.

As mentioned again, we do have this advisory group to the State Department for the United Nations Lead-Zinc Study Group. But we do not get in too much into fundamentals, only general estimates of needs, supplies, and things like that.

It is more or less the overall total of what is coming and going in our country, the balance sheet.

Senator SYMINGTON. Senator Bush, have you any questions?

Senator BUSH. What I gather from what you say, Mr. Wilson, is that you feel that this industry is so important, that lead and zinc are so important in the estimates of stockpile requirements, national requirements, in the event of a war, that no targets should be set without your having an adequate hearing with the appropriate authorities that are going to set those targets. Is that about it?

Mr. WILSON. That is right.

That particularly applies to talking about disposals before we have had an opportunity to participate in discussions of what these objectives should be.

Senator BUSH. In the event that a disposal program is undertaken, then you think it is very important that your industry be given a full hearing as to how much, how such disposals should be conducted, is that about right?

Mr. WILSON. That is the second step.

In the first place, we want to be sure that the objectives are realistic and in the best interests of the country. And if there is a balance, then we would like to take the step you are talking about, to certainly be consulted about how this is to be done.

Senator BUSH. Do you have any idea or have you expressed your view as to whether the present lead and zinc stockpiles are adequate or too high, or what is your view about that? Maybe I missed your testimony on that.

Mr. WILSON. Well, I believe you did, Senator.

As far as we are concerned, all that lead and zinc should certainly be kept as it is, as a national asset, until we know better that something should be done with it.

Senator BUSH. So you are against any disposal plan at the present time?

Mr. WILSON. At the present time, until we know more about the basic objectives.

Senator BUSH. All right, sir.

I have no further questions.

Senator CANNON. I do not quite understand what you refer to when you say "until we know more about the basic objectives."

Is it your thought that these objectives that have been set now are erroneous?

Mr. WILSON. Senator, we just feel that they are unrealistically low in the event of a catastrophe in this country and the problems of fighting a war and the rehabilitation; that these tonnages are very low compared to even the normal annual consumptive needs at the present time; and that in case of war that figure could even be much higher than it is now.

Senator CANNON. Have you attempted to take that up with the people responsible for fixing these objectives to try to point out that your people do not agree; that you feel that this is too low?

Mr. WILSON. Senator, this was suggested that perhaps we should get in touch with OEP and talk about these things.

Senator CANNON. But you have not done that yet?

Mr. WILSON. No, sir.

Senator CANNON. If you do that and the determination is still there that the amounts now, that the objectives are in relatively the same category as they are now, what would be your position then with respect to disposal of these tremendous amounts of surplus? Would you still feel that these should be retained on hand at any cost?

Mr. WILSON. The second point, or the last point, you might say, in my testimony is that under no circumstances should disposal legislation be considered until a thorough reappraisal of objectives has been completed by Congress with the cooperation of the minerals industry and the consumers of its products.

That answers your question that at that time we would start to consider this particular problem that you bring up.

Senator CANNON. But I went a little further than that. I said, assume that you make this study and that the objective still remains the same. Would your position be the same: that these tremendous amounts of surpluses should be retained at all costs?

Mr. WILSON. Sir, I do not know. That is something our industry would have to face at that time.

Senator CANNON. Because the way I read your statement—and I am sorry I was not here when you gave it—but I have gone through it hurriedly—it sounds to me like you are just simply taking an anti-position rather than trying to take a realistic approach and see if there is some solution.

I, for one, am not interested in seeing any action taken that is going to do irreparable injury to any of our industries, but I think that you people owe it to us, in consideration of this type of legislation, to try to come up with some constructive suggestions, rather than to just say: "We don't want to do anything. We want to sit on our hands and let's keep these things in the stockpile."

Mr. WILSON. Senator, I am sure that once we have had an opportunity to satisfy ourselves that the objective is realistic, that we would be willing to cooperate on plans for the future.

Senator CANNON. Will you take steps immediately on behalf of your industry to try to satisfy yourselves either that these objectives are correct and reasonable or that you could convince the people responsible for making them that they should be changed?

Mr. WILSON. I will certainly take that back to my industry, sir, and we would like your cooperation, too.

Senator CANNON. Thank you very much, Mr. Chairman.

Senator SYMINGTON. Senator Thurmond?

Senator THURMOND. Mr. Wilson, you state in your recommendations that all the lead and zinc remain in the stockpile and no thought of disposal of lead and zinc should be considered.

Now, if legislation is considered, as I understand it, you are going to make some recommendations.

Mr. WILSON. I did not quite understand your question, Senator.

Senator THURMOND. Suppose the committee does decide to bring in some legislation. Are you planning to make some recommendations pertaining to such proposed legislation?

Mr. WILSON. This would be taken to my industry, and I am sure they would want to comment on it, yes, sir.

Senator THURMOND. I agree with Senator Cannon. I think it is well for you to make your recommendations, because the committee may take a notion to act, and if you do not make any recommendations, then they will not have the benefit of your thinking on this matter.

Mr. WILSON. Yes, sir.

Senator THURMOND. You have read the recommendations by the aluminum people, have you not?

Mr. WILSON. Aluminum, yes, sir.

Senator THURMOND. Who testified yesterday.

Mr. WILSON. Yes, sir.

Senator THURMOND. Do you care to express any comment on those?

Mr. WILSON. Well, I think that was taken care of pretty well in comparing the size of their stockpile with the annual consumption, as compared to lead and zinc.

Using the same period it would take many years to dispose of lead and zinc as compared to aluminum. I think there are probably some other differences. Some of this stockpile was acquired, you might say, against our wishes, where, as I understand it, aluminum was not.

And, of course, we never favored the barter program for acquisition, which they did.

I believe also the nature of where it came from is a little different. We have lead and zinc produced all over the world, and I think theirs was a little more localized.

So I do not think that at the present time we could accept their recommendations for lead and zinc.

Senator THURMOND. In other words, you do not think you could compare the disposal procedure that might be used for aluminum for zinc and other metals?

Mr. WILSON. No, sir. The tonnages are different and price structure is different.

Senator THURMOND. The important thing that we have is the thinking of the people who are engaged in the minerals industry.

Mr. WILSON. Yes, sir.

Senator THURMOND. If disposals should be made.

Mr. WILSON. Yes, sir, I would agree with that.

Senator THURMOND. I am perfectly openminded on this matter. When reading the statements—sometimes we cannot get to all the hearings but we read the statements.

Mr. WILSON. Surely.

Senator THURMOND. And we want to take action that is in the best interests of the country.

Now, of course, some of the Government experts tell me that we do not need the large stores that we have on hand now, the stocks on hand.

Your opinion is we do, as I construe it.

Mr. WILSON. Well, let us put it this way: Our discussion here has been that we would like to have an opportunity to delve into that a little bit and assure ourselves that such a figure is right or some other figure should be the one.

Senator THURMOND. And your opinion may not finally agree with these Government experts and may not agree with this committee, but, from your standpoint, you can see where it might be advisable, can you not, to make suggestions in the event legislation is recommended?

Mr. WILSON. Yes, sir, we appreciate that.

Senator THURMOND. Thank you, Mr. Chairman.

Senator SYMINGTON. Any further questions?

Thank you, Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman.

Senator SYMINGTON. Mr. Counsel, do you have another witness?

Mr. COBURN. Mr. Jean Vuillequez, Mr. Chairman.

Senator SYMINGTON. Mr. Vuillequez, are you here?

Mr. VUILLEQUEZ. Yes, sir.

Senator SYMINGTON. Raise your right hand, please. Do you swear that the testimony you give to the subcommittee will be the truth, the whole truth and nothing but the truth so help you God?

Mr. VUILLEQUEZ. I do.

Senator SYMINGTON. Thank you. You have a prepared statement?

TESTIMONY OF JEAN VUILLEQUEZ, VICE PRESIDENT AND DIRECTOR, AMERICAN METAL CLIMAX, INC.

Mr. VUILLEQUEZ. Yes, Mr. Chairman.

Senator SYMINGTON. Will you read it?

Mr. VUILLEQUEZ. Mr. Chairman, my name is Jean Vuillequez. I am a vice president and director of American Metal Climax, Inc. whose head office is in New York City. I live in Stamford, Conn. My company has important mining, smelting, and refining operations in the United States and abroad and substantial investments in domestic and foreign mines. Our main products are cadmium, copper, germanium, lead, molybdenum, potash, tungsten, uranium, and zinc. Our products are sold to all industrial countries in the free world. I have been employed by American Metal Climax since 1927 and engaged in the marketing of its base nonferrous metals since 1930.

At this point, Mr. Chairman, I would like to thank this committee for the opportunity of appearing here and being a small part of its very important deliberations on a very important question.

Senator SYMINGTON. Mr. Vuillequez, it is a privilege to have you with us.

Mr. VUILLEQUEZ. Thank you.

In view of their magnitude, disposal or the threat of disposal of our stockpiles chills the blood of all producers, here and abroad, impairs our relations with countries friendly to us or cultivated by us and helps those who want to discredit us—chiefly the Communists.

Our stockpiles involve not only the interests of the United States and domestic producers but of our allies and of developing countries we are committed to assist in the Western Hemisphere, in Africa and Asia. The United States must act with great discretion and circum-

spection in its scrutiny and treatment of stockpile objectives and disposals.

The proposed bill "Stockpile Disposition Act of 1962" in my opinion is not in the best interests of the United States and in the following I give my reasons why we should keep frozen our stockpiles of copper, lead and zinc, least for the foreseeable future, and my objections to the proposed bill.

1. Are our stockpiles really excessive? Enormous quantities of raw materials are required to support a single individual within highly industrialized societies. In 1900 the United States required for each of its 76 million persons about 5 pounds of copper, 8 pounds of lead, and 3 pounds of zinc. In 1960, for nearly 180 million people, these requirements had grown to approximately 12 pounds of copper, 10 pounds of lead, and 10½ pounds of zinc per capita. This per capita increase took place despite the fact that throughout this period newer materials such as aluminum and plastics displaced to a significant extent the uses of copper, lead, and zinc. It is not unreasonable to assume that the future rate of growth of consumption of these three base nonferrous metals will be at least as great as in the past.

Thus it seems to me that our stockpiles of metals that have shown historical growth and that can be confidently assumed to maintain roughly similar growth in the future, that neither deteriorate nor become obsolete, are a valuable asset—one of the most valuable assets this country possesses.

There has been much publicity in the press about losses our Government has taken due to stockpiling, based chiefly on comparing original cost with present market prices. Objective investigation may disclose that human errors occurred when stockpile purchases were made, but it is unfair to criticize in 1962, by hindsight, the basic decisions taken under the conditions existing at that time.

It is misleading to compare acquisition costs of our stockpiles with present market prices. This is especially true for lead and zinc, the prices of which are now depressed, partly because of stockpiling, which stimulated overproduction, and partly because of the current fear that the U.S. Government will offer large quantities to the market. It is equally misleading to show a profit on stockpiles acquired below present market prices.

Our stockpiles should be regarded as a life insurance policy against war or catastrophe, or as expired term insurance in the case of materials which technology has made obsolete. They should not be considered as having been purchased for profit, or as available for sale for cash flow.

As I understand it our stockpile objectives were based on military estimates. We are in an ever-faster moving world—as is inscribed on the National Archives Building, "What Is Past Is Prologue." History is replete with recurrences of economic and military miscalculations. Is it really possible to predict accurately whether an all-out war would be short or long? Should not these objectives be reviewed from the military and the civilian point of view? Such a review should consider that we are the only country in the free world which has substantial stockpiles of strategic materials and that our allies have an important stake in the maintenance of these

stockpiles. It should take into account that future technological developments in warfare are just as unpredictable as were present conditions when the original 5-year stockpile objectives were established.

I suggest that a review of our stockpile objectives by the administration, and with the appropriate congressional committees, might uncover good reasons for increasing the objectives for at least some of the materials in the stockpile. This review should also examine the form in which our stockpiles should be kept.

It may be desirable to upgrade or fabricate some of the raw materials. For example, if our productive plants are destroyed, would we need a part of our copper stockpile in copper tubing, sheet, wire and cable, or alloys, instead of in copper cathodes and wirebars? Is our method of location and storage in need of revision? Should some of our stockpiles be stored underground or in enclosed, rather than open, storage?

2. Market effect of stockpile disposals: Just the threat of stockpile disposals has a distinct effect on the market. Consumers, here and abroad, tend to reduce their inventories to the barest minimum if they think metals will be made available by governments. This causes inventories of producers to increase, prices to weaken, and eventually lower production and employment. Since late January, when it became known that an investigation of our stockpiles was to be undertaken, the London prices of lead and zinc declined 7 percent and 3 percent, respectively.

Since I wrote this, Mr. Chairman, the prices of zinc and lead in London have shown new lows.

Senator SYMINGTON. What was that percent?

Mr. VUILLEQUEZ. It was 7 percent for lead and 3 percent for zinc.

Senator SYMINGTON. How does that compare with the stock market prices?

Mr. VUILLEQUEZ. The stock market prices, especially for lead and zinc companies, have shown very sharp drops as you know, Mr. Chairman.

This occurred despite announcements of production cuts. A good part, if not all, of this decline was due, in my opinion, to the fear of sales by our Government. The mere announcement in early September 1961 that the U.S. Government might sell 50,000 tons of tin, and the subsequent introduction of legislation to that end, caused the price to drop from about $1.25 per pound, at the time of the announcement, to its present price of about $1.12. This happened even though there are no stocks of tin in the hands of producers and consumption is in excess of production.

We are all aware of the effect that changes in public confidence in the general economy can have on general business conditions. This unpredictable and sensitive element—confidence—is just as important in the metal markets as it is for consumer goods. It is difficult to measure not only the extent of changes of confidence in the metal markets, but their duration.

Any statements from a government as powerful as the United States, whether they be related to buying or selling metals, immediately or in the future, have a quick effect, fleeting in the case of short-term purchases, lasting if sales of important quantities are involved, on the

confidence of producers and consumers in the prices for such metals.

The market effect is the same whether stockpile disposals are made to other Government departments who reduce correspondingly what they might otherwise purchase from industry, or through the usual commercial channels. Every pound of metal sold by the U.S. Government, whether it is sold here or abroad, or to other Government departments, or to industry, is a pound that industry will not produce.

Every pound that the Government sells will put pressure on prices and every pound that industry does not produce will affect adversely employment and the full utilization of production facilities. Profits and the Government's tax income will decline, and unemployment and unemployment payments, here and abroad, will increase.

Since the demand pent up during World War II was satisfied, we have been living in a fiercely competitive society. Competition is increasing, not only within the United States, but among the United States and many powerful countries, including destructive economic warfare from the Communist bloc.

Mr. Chairman, after I wrote this it was pointed out to me that the words "unfair economic warfare" could not be right, because economic warfare cannot be fair, and I would appreciate, therefore, if you would allow me to change in the record "unfair" to "destructive."

We also have to contend with keen intraindustry competition. Copper must stay competitive with other materials such as aluminum, plastics, steel; so must lead and zinc. In order to survive this furious competition, all metals and other materials engage in research for new uses, applications engineering, product development, technical selling, and promotional work. Their price structures are extremely sensitive—a very fine balance must be maintained among the prices of all these competitive materials.

Our economy, and that of most of the free world, is now hesitating. It is not clear whether or not, for the short term, we are in a period of recession or sluggishness here and abroad. Productive capacity, here and abroad, is greater than present demand.

The United States is discussing with Latin American countries and the United Nations ways and means of stabilizing prices of raw materials. Some industries are in acute distress; for example, lead and zinc, where the prices are the lowest in nearly two decades and production has been sharply reduced. In copper, a number of producers here and abroad have announced production cuts.

This is not the time to dispose of copper, lead, and zinc from our stockpiles; in fact, it is a bad time, from the market point of view, even to talk about the possibility of disposals.

3. The proposed Stockpile Excess Disposition Act of 1962: I believe it is the policy of the Congress and the administration to do everything possible to reduce unemployment. The proposed bill provides no safeguard against sales of stockpiled materials when unemployment is high, as it is today, and the affected industries are producing below capacity. It is not clear to me how much sales could fit in with the Employment Act of 1946, as amended, and related laws and with the two groups established by this act, the Council of Economic Advisers and the Joint Committee on the Economic Report.

The proposed bill has little or no provision for predictability of stockpile disposals. There should be ample warning to permit industry to plan production and marketing policies. The proposed bill delegates to the administration the power to decide what the excesses are, how much of them should be sold, when, and at what prices. The impact of disposal could be very sudden and shatteringly severe—labor, industry, and Congress could be caught by surprise—the administration of the proposed bill could be destructive.

When the United States purchased its stockpiles, production in excess of consumption was stimulated. If and when the stockpiles are sold it is unavoidable that the production will be less than consumption or that producers' stocks will increase. Legislation for disposals should recognize the need for reasonable increases of productive capacity to meet increased demand and the disposals should be timed over a sufficiently long period so that, when they are completed, a shortage of production and runaway markets do not develop. The disposal program should also consider the effect on the competition among materials within the stockpile and between stockpiled and nonstockpiled materials.

It should not be left to an administrative agency to decide the timing, quantities, and price guidelines at which disposals are made. This decision should be made by Congress, after consideration of detailed recommendations by the administration based upon discussions with competent industry advisory committees.

The legislation should include safeguards to producers, consumers, and labor and a provision that the administration should consult and take into consideration industry suggestions on amount, timing, price, and methods of disposal. Before such a bill is enacted, there should be hearings, to which all interested parties, including labor and consumers, would be given timely opportunity to testify and to offer well-thought-out suggestions.

In summary, I feel:

1. No copper, lead, or zinc should be disposed of under present conditions. This should be emphatically made known to the whole world; already the fear of such disposals has done much damage.

2. A thorough study should be made of our stockpile needs not only for military but for civilian purposes. This should take into account and cooperate with, the interests of our allies and of developing countries. Since our allies will benefit from needed stockpiles, they should pay their fair share of the cost of financing and of warehousing.

3. After review of our stockpile objectives, and establishment of new ones, if deemed advisable, the method of disposal of excess stockpiles, if any, should be negotiated with interested governments, and legislated by Congress. Such legislation should receive the benefit of thorough discussions with all interested parties in Congress, government, and industry, including labor and consumers. It should provide for due consideration by the administration of industry advice, including consumers, on timing and methods of disposal.

In conclusion, I would like to state that American Metal Climax's policy will be to cooperate with the U.S. Government to the fullest extent possible in the event it is found necessary to dispose of excessive stockpiles. Such excesses exert a powerful depressive in-

fluence on the market and make forward planning very difficult, if not impossible. In the metal and mineral industries plans must be made and the necessary financing arranged many years before new facilities can come into production.

To find the best method of disposal will require profound thinking—this will take time. No general method of disposal is available which will fit the position of all stockpiled commodities. Each commodity must be treated separately and its peculiar economics and market conditions recognized and dealt with.

Thank you, Mr. Chairman.

Senator SYMINGTON. I would ask a couple of questions.

You refer to tin. Would you say that no tin should be disposed of under present conditions?

Mr. VUILLEQUEZ. Certainly not, Mr. Chairman. The tin market is in an entirely different position right now than the copper, lead, and zinc markets.

Senator SYMINGTON. Then what would your people's position be on tin?

Mr. VUILLEQUEZ. As I understand it, our Government is now doing some horse trading with the tin producers to see how much will be sold per week, and there seems to be some chance that there will be some agreement.

Senator SYMINGTON. You say on page 4 that we announced that we might sell 50,000 tons of tin and it dropped the price from $1.25 to $1.12. Do you think it was a mistake to announce we might sell some tin?

Mr. VUILLEQUEZ. I did not put that there, Mr. Chairman, to imply in any way that it was a mistake that we should sell some tin.

I put that there to show that even in a market like tin, where the consumption has been in excess of production, just the announcement put the price down. I was merely trying to point out that announcements make a big difference in the metals market, and that we should be fairly circumspect about those.

Senator SYMINGTON. You said you were a dealer in tin?

Mr. VUILLEQUEZ. Well, we were importers of tin.

Senator SYMINGTON. Yes.

Mr. VUILLEQUEZ. Until recently. We had gotten out of the business, Mr. Chairman, largely because I don't think we can compete with the American Government from the future point of view.

Senator SYMINGTON. Did you sell tin to the stockpile?

Mr. VUILLEQUEZ. No, Mr. Chairman. Our business has been entirely the importation of tin for consumers.

We usually buy it in the Far East or we used to buy it in the Far East and sell it to the steel people and the consumers of tin.

Senator SYMINGTON. Do you know how the price of tin was established?

Mr. VUILLEQUEZ. You mean by the international tin agreement?

Senator SYMINGTON. The international tin cartel.

Mr VUILLEQUEZ. Yes. I think they avoid, Mr. Chairman, the word "cartel," although that is really what it is.

Well, I have forgotten, Mr. Chairman, the exact details of the tin agreement, because since we have been out of the business about 3 or 4 months ago, I decided that I had better think of other things to better utilize my time on.

Senator SYMINGTON. Anybody who didn't have the explanation you have just given, after your statement, would be led to infer you thought it was a mistake for the price of tin to drop from $1.25 to $1.12 because the U.S. Government said it might sell 50,000 tons of tin.

The largest steel company in this country has been asking us to get some tin sold, because they said the fact the cartel was working the price of tin up was affecting the price of steel.

Do you happen to know the cost of tin in Malaya or Indonesia?

Mr. VUILLEQUEZ. No, I do not, Mr. Chairman. I am making no brief about the tin business or about the price of tin.

Senator SYMINGTON. I was just visiting with you about the price of tin. You brought it up.

Mr. VUILLEQUEZ. I brought it up to point out that just an announcement puts a price down, even though production is less than consumption.

Senator SYMINGTON. But if the cost of tin, before extraordinary costs such as government taxes, is around 20 cents, or 30 cents, or 40 cents, or even 50 cents, and the price is $1.12 or $1.25, the producer would be getting along right well, wouldn't he?

Mr. VUILLEQUEZ. Mr. Chairman, I hold no brief for international commodity agreements.

Senator SYMINGTON. Don't you think the producing company in question would be doing pretty well?

Mr. VUILLEQUEZ. I would like to be in the business of the producer under those conditions, Mr. Chairman.

Senator SYMINGTON. Do you happen to know the top price at which we put tin into the stockpile?

Mr. VUILLEQUEZ. I think it was in the order of $2, but I am not sure.

Senator SYMINGTON. There were spot sales at $2.04, but some actually went in the stockpile at $1.83. Now if they are producing for 40 cents, and selling for $1.83, that's not so bad.

Mr. VUILLEQUEZ. No. I would like to be in that kind of a business, Mr. Chairman. It didn't last very long.

Senator SYMINGTON. The primary reason I mention this is because the more these matters become a matter of public record, the less the chance of making unconscionable profit at the expense of the taxpayer.

If you read the report the Senate subcommittee put out in 1952 about tin, in July 1952, you will find the price was highly criticized.

Less than 30 days after the report was put out, in August 1952, the Government bought a quarter of a billion dollars' worth of tin, $243 million to be exact, at the criticized price.

You mentioned these figures yourself. If this committee could help reduce high prices from the standpoint of the taxpayer, to prevent that type and character of profit being made, that would be good, don't you think?

Mr. VUILLEQUEZ. Mr. Chairman, that is exactly the situation that frightens the devil out of us in connection with the other metals.

Senator SYMINGTON. We are talking about tin now.

Mr. VUILLEQUEZ. If you do it in tin, maybe you would do it in something else. That is what bothers me, Mr. Chairman.

Senator SYMINGTON. What do you think is a fair profit? Would you say 500 percent on sales is a fair profit?

Mr. VUILLEQUEZ. It depends on the risks, on the capital employed. In the manufacturing business, for example, in our company we think that if we can make 15 percent after taxes——

Senator SYMINGTON. 15 percent after taxes?

Mr. VUILLEQUEZ. On our investment, we would think that that is a good business.

Senator SYMINGTON. Do you know of any business that makes 100 percent profit on sales after costs, let alone sales?

Mr. VUILLEQUEZ. I don't think so, Mr. Chairman.

Senator SYMINGTON. Thank you.

Senator Bush, have you any questions?

Senator BUSH. Mr. Chairman, I notice that our friend here has suggested that our allies will benefit from the needed stockpile, and therefore they should pay their fare share of the cost of financing and of warehousing. That is a very interesting suggestion indeed.

Mr. VUILLEQUEZ. I think we should try it, Senator Bush.

Senator BUSH. You do?

Mr. VUILLEQUEZ. I think that our stockpiles are for the protection of them as well as for us.

Senator BUSH. I think of course anything we spend in the way of the military does have that effect. But do you seriously believe that we could induce our allies to carry part of the burden on maintaining the stockpile?

Mr. VUILLEQUEZ. Senator, they have no stockpiles. The metals—I am speaking here of copper, lead, and zinc in particular—they have no stockpiles of their own. The supplies that go to Western Europe come from very far away. They come from Africa, they come from Latin America.

They might be shut off very quickly in times of stress, and I believe that our stockpiles and our formulation of stockpile policies should take into account the needs of Western Europe, and therefore if that is accepted and that is done, I think that those countries should be asked to pay a share, not of the cost of acquisition, Senator, but of financing and of warehousing.

I don't think we should ask them to pay the costs of acquisition, because I think those stockpiles should be under our control 100 percent and not under the control of any other country.

Senator BUSH. What you are saying in your testimony is that we really shouldn't be using this stockpile to affect the price of these commodities, is that right?

Mr. VUILLEQUEZ. Senator Bush, eventually stockpiles, excessive stockpiles, will have to be disposed of, and speaking for my company——

Senator BUSH. You said a little earlier that you thought that we should regard the stockpile as sort of an insurance of which we have had the benefit already.

Mr. VUILLEQUEZ. The cost. I was referring to the comparisons of cost, Senator. I was referring to the losses that have been calculated on what is in the stockpile.

Senator BUSH. I thought you meant that the stockpile itself constituted this form of insurance.

Mr. VUILLEQUEZ. Yes; it does.

Senator BUSH. I think it does myself.

Mr. VUILLEQUEZ. Yes, I think it does, yes, very definitely.

Senator BUSH. If that is the case then, and the sale of stockpile materials by the Government would seriously affect these markets and employment and create unemployment, your feeling is that we ought to be very reluctant to sell from the stockpile; is that right?

Mr. VUILLEQUEZ. And very cautious, and try to arrive at a long-term disposal program.

I am not saying that any excessive stockpiles we have should not be disposed of. I am saying that they should be disposed of on a basis which will minimize the injury. It is bound to hurt, Senator Bush.

Senator BUSH. Were you here yesterday, Mr. Vuillequez?

Mr. VUILLEQUEZ. Yes; I was.

Senator BUSH. Did you hear the aluminum group proposal in that connection?

Mr. VUILLEQUEZ. Yes; I did.

Senator BUSH. Did that sound like a reasonable thing to you?

Mr. VUILLEQUEZ. I think for the aluminum industry it is reasonable, yes. But you see they are dealing with——

Senator BUSH. In other words, you wouldn't have any objection to the disposal of stockpile surpluses or materials in accord with, in line with that kind of a suggestion where the industry itself was willing to take the material?

Mr. VUILLEQUEZ. None whatsoever. In fact, I think it is a good way to do it. But I would like to point out that——

Senator BUSH. Would you say that would be the only way to do it—I mean with the cooperation of the industry?

Mr. VUILLEQUEZ. I think it is the only way to do it to minimize, with the cooperation of the industry, the effect on the market, on employment, and on labor.

Senator BUSH. Where the industry takes a firm position that they strongly oppose disposition, for reasons that you have stated in your testimony, then you don't think the Government ought to dispose?

Mr. VUILLEQUEZ. I don't think that the Government ought to dispose of copper, lead, and zinc under present conditions, Senator, because the markets are depressed in lead and zinc, and in copper it is touch and go right now.

Senator BUSH. Is your company producing lead and zinc?

Mr. VUILLEQUEZ. Yes, sir; we produce lead and zinc in Mexico. We have a mine that we will be operating soon in Canada. We have a zinc smelter in Blackwell, Okla.

Senator BUSH. Is this a large factor in your business?

Mr. VUILLEQUEZ. Not too much, Senator, no. It is an important factor, but it is not the most important.

Senator BUSH. What is? What are the more important factors?

Mr. VUILLEQUEZ. Molybdenum is our most important from the profit point of view. Then copper. After that I would say lead and zinc.

Senator BUSH. Thank you, sir.

Senator SYMINGTON. Senator Thurmond?

Senator THURMOND. Mr. Chairman, I have no questions. I have suggested to the previous witness a recommendation. You heard what I suggested to him. I would suggest that to you, too.

Mr. VUILLEQUEZ. May I hear the suggestion again, Senator, to be sure that I know to what suggestion you are referring?

Senator THURMOND. That was Mr. Wilson, I believe, who was testifying. Mr. Wilson testified and recommended all lead and zinc remain in the stockpile under present congressional control, and no thought of disposal.

He further recommended that under no circumstances should disposal legislation be considered until a thorough reappraisal of objectives has been completed by Congress, with the cooperation of the metals industry and consumers of the products.

My suggestion to him was that if this committee does decide to bring up some legislation for disposal, that we would like to have the benefit of his views, although he doesn't think any should be disposed of. The previous witness didn't think any should be disposed of, and he didn't think the target should be changed.

In the event those things are done, then what suggestions do you have to make to this committee? In other words, if we do decide to take some action, if you will give us the benefit of your views, it might be helpful to you as well as to us.

Mr. VUILLEQUEZ. Yes. Senator, I believe that the Congress should give some fairly tight criteria to the administration. I believe, for example, that the Congress should stipulate in its bill that no metals—and this will be different for all products—should be sold below certain minimum prices, because I believe that price is the barometer that will show whether an industry is in distress or not.

I believe those minimum prices should be established by Congress and should be reviewed periodically, perhaps every year by this committee.

I believe that the disposition of stockpiles of metals which are very sensitive, very volatile, especially like copper, lead, and zinc, that the market is just about as volatile as in the sales of automobiles, if you please.

I believe there should not be any fixed tonnages per annum but it should be perhaps a percentage of the consumption, a low percentage so as not to upset the market, maybe 1 or 2 percent.

The aluminum industry proposal, for example, amounted to about 2 percent of the current annual consumption, and the aluminum consumption is increasing at about 7½ percent per annum, so they can easily absorb that.

In the case of lead, zinc, and copper, unfortunately while it is, we believe, a growth industry, it is not growing as fast. Those factors have to be taken into consideration.

I am sure that all other commodities in metals would have to be treated separately, depending upon their particular position.

Senator THURMOND. That is all, Mr. Chairman.

Senator SYMINGTON. You said that in early September 1961 the United States announced it might sell some tin; then the price dropped from $1.25 to $1.12.

In August 1961 the price of tin was $1.19. In September 1961 it was $1.21. In October 1961 it was $1.21. In November 1961 it was $1.23. In December 1961 it was $1.21. In January 1962 it was $1.20. In February 1962 it was $1.21.

I don't see, based on those facts, how you can state "the mere announcement dropped the price from $1.25 to $1.12 in September 1961."

In addition, on July 12, the first invitation to bid for tin was offered at $1.16. The price on July 18 was $1.15, on the Government's first invitation to bid. August 2 it was $1.16. August 30 it was $1.24. September 7 it was $1.22. September 26 it was $1.22. November 8 it was $1.22. November 29 it was $1.21.

Those figures are for 1961. So the fact we might sell some tin I don't think affected the price as much as your statement would imply.

Mr. VUILLEQUEZ. Mr. Chairman, on the 29th of August—I haven't got the same dates that you have, but I do have certain dates in connection with tin—on the 29th of August 1961, the price for New York spot tin was $1.25¾. On the 5th of September the General Services Administration announced that it had requested Congress to authorize disposal of 50,000 tons, which had been declared excess to national stockpile needs. On the 6th of September the price dropped to $1.21½.

Then the price firmed up again as you correctly stated, because Congress adjourned in late September, and no action was taken to tin. Then the price began to drop again, as I think you showed, by $1.24——

Senator SYMINGTON. In March of 1962 it was higher than it was in any month from June of 1961. These prices are for New York tin, cents per pound, Engineering and Mining Journal metal markets report.

Mr. VUILLEQUEZ. I do not dispute your information, Mr. Chairman, but I don't think that they disprove that announcements of disposal by the Government will reduce prices——

Senator SYMINGTON. We sold tin allowed to be sold from RFC stocks, in September, October, and November of 1961; and the price was quite steady all during that period.

I mention that because the prices of such commodities as aluminum and copper have also not been affected so far by these hearings, even though there has been a bad break in many other prices, such as the prices of stocks.

Before you leave, I think it only fair to say that one of the reasons we are having these hearings is because some Members of the Senate were anxious to sell these metals we are talking about, even if those sales involved distress selling.

Members of this committee felt that was not the best way to handle it. The President felt that was not the best way to handle it. We could have sold from the DPA inventory, and also the supplemental stockpile, if a legal opinion had been changed. We could have recommended the starting of distress selling in lead, zinc, copper, aluminum, and other metals. In the interest of the industry, however, we thought it would be a good idea to have these hearings, especially after the President said he wanted if possible orderly sales and not distress sales.

We have been faced for some months with a demand by some Members of the Senate for distress sales of this merchandise. Nevertheless, the industry, apparently, had little confidence in the administration, and great confidence in the Congress.

Mr. VUILLEQUEZ. May I comment on that?

Senator SYMINGTON. I have waited until the last witness of protest appeared, before making these statements.

Mr. VUILLEQUEZ. May I make a comment, Mr. Chairman?

Senator SYMINGTON. I would be glad to have you comment.

Mr. VUILLEQUEZ. Mr. Chairman, your committee has done very good work in obtaining an unwrapping on the secrecy of certain items. I think that these hearings have been very valuable.

I think that the question of the Congress control is a very important one. I believe that there have been uses as you have uncovered, of stockpiling for purposes other than they were originally intended perhaps, and it is entirely possible, Mr. Chairman, that unless the Congress puts a proper bill through that it might happen the other way around.

In other words, if the administration used its purchasing power to prop up prices, might it not under certain political pressures use the same power to put down prices?

I think that it would be a good thing if this committee would take that into account in the bill that it proposes to issue from this committee.

Senator SYMINGTON. We appreciate your opinion. With the exception of the aluminum industry, nobody has given us anything in the way of suggestion except proposals incident to a lock and a key. Those who criticize our efforts to the end of getting some legislation—and there will be suggested legislation—should give us, in addition to criticism, some constructive thoughts as to what they think would be the best legislation.

Mr. Counsel, have you any questions?

Mr. VUILLEQUEZ. May I make a comment, Mr. Chairman, on your last remark?

May I point out, please, that the industry just heard about this bill late last week, and has not had the opportunity really to give mature thought to what it should present to this committee as a method of disposal.

I do not think you should take, certainly not my position, as meaning that we are going to try to adopt a dog-in-manger attitude against disposal. On the contrary, as I said, my company, and I am sure the industry, wants to cooperate. But you have to give us time to think how we can do it.

Senator SYMINGTON. You may be speaking for your company, but many people in industry have known about this proposed legislation for many weeks.

Mr. Counsel, have you any questions?

Mr. COBURN. I don't believe so. Thank you.

Senator SYMINGTON. Thank you. We appreciate your appearance.

Mr. VUILLEQUEZ. Thank you, Mr. Chairman.

Mr. COBURN. No further witnesses, Mr. Chairman.

Senator SYMINGTON. The hearing will be adjourned subject to the call of the Chair.

(Whereupon, at 4:30 p.m., the hearing was adjourned, subject to the call of the Chair.)

STOCKPILE INVESTIGATION

MONDAY, JULY 23, 1962

U.S. SENATE,
SUBCOMMITTEE ON THE NATIONAL STOCKPILE
AND NAVAL PETROLEUM RESERVES OF THE
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee (composed of Senators Symington (chairman), Thurmond, Engle, Cannon, Beall, and Bush) met, pursuant to notice, in room 235, Old Senate Office Building, at 10:05 a.m.

Present: Senators Symington (presiding), Thurmond, Cannon and Bush.

Also present: Richmond C. Coburn, chief counsel to the subcommittee; T. J. May, assistant counsel; J. H. Zimmer, assistant counsel; Edward O. McCue, III, assistant counsel; and James J. Gehrig, special assistant to Senator Symington.

Senator SYMINGTON (presiding). This hearing will come to order.

Mr. Counsel, do you have a witness?

Mr. COBURN. Yes, Mr. Chairman.

Before we call the first witness, I might say that today we are going to look into a contract that was entered into under the Stockpile Act for the purchase of 500,000 troy ounces of platinum, and, as a preliminary to any testimony, I call attention to the fact the records that have already been introduced in the hearings show that at the present time our maximum objective in platinum is 165,000 troy ounces, and we have in all three stockpiles a total of 767,000 troy ounces.

Senator SYMINGTON. How much of that is in the supplemental stockpile?

Mr. COBURN. Fifty thousand are in the supplemental and the rest is in the national stockpile.

Mr. William N. Lawrence, would you come forward, please?

Senator SYMINGTON. Good morning, Mr. Lawrence.

You have been sworn before the committee. Will you consider yourself sworn?

TESTIMONY OF WILLIAM N. LAWRENCE, DEPUTY DIRECTOR, MOBILIZATION BASE ANALYSIS BRANCH, OFFICE OF EMERGENCY PLANNING

Mr. LAWRENCE. Yes, sir.

Mr. COBURN. Mr. Lawrence, you have testified a number of times in the previous hearings and have always identified yourself as being in the Office of Emergency Planning at the present time?

Mr. LAWRENCE. Yes, sir.

Mr. COBURN. And you have been connected with the management of the stockpile for approximately how long did you say?

Mr. LAWRENCE. Since about 1953.

Mr. COBURN. Mr. Lawrence, at my request, have you made a study of the objective and inventory in platinum in June of 1951 and subsequently?

Mr. LAWRENCE. Yes, sir.

Mr. COBURN. What was our objective for platinum in June of 1951?

Mr. LAWRENCE. The objective at that time established by the Munitions Board was 590,000 troy ounces.

Mr. COBURN. And when was that objective set?

Mr. LAWRENCE. It was established on November 12, 1950.

Mr. COBURN. Now, in June of 1951, how much platinum did we have in the inventory?

Mr. LAWRENCE. The inventory, the records show that we had 369,496 ounces as of June 30, 1951. There was none on order.

Mr. COBURN. That left, then, a balance of how much approximately that had not yet been acquired within the objectives of the Stockpile Act?

Mr. LAWRENCE. 220,504 ounces.

Mr. COBURN. Mr. Lawrence, I am not sure that it has ever been made clear to the committee in these hearings whether the objectives that were set, such as you have just described, governed purchases under the Defense Production Act.

Mr. LAWRENCE. No, sir; they did not. The objectives for the stockpile covered only the purchases for the stockpile itself. The Defense Production Act goals were established separately from the objectives of the stockpile.

Mr. COBURN. Let me go over that carefully so I am sure the record will be clear on it.

As I understand it, then, purchases made under the Stockpile Act and paid for by stockpile funds were governed by the objectives that were set?

Mr. LAWRENCE. That is correct, sir.

Mr. COBURN. Under the Stockpile Act?

Mr. LAWRENCE. That is correct, sir.

Mr. COBURN. Back in 1951, those objectives were set by the Munitions Board?

Mr. LAWRENCE. That is correct, sir.

Mr. COBURN. Subsequently, those objectives were set by the Office of Defense Mobilization?

Mr. LAWRENCE. That is correct.

Mr. COBURN. And then at a later time by the Office of Civil and Defense Mobilization?

Mr. LAWRENCE. That is right.

Mr. COBURN. And at the present time those objectives are set by the Office of Emergency Planning?

Mr. LAWRENCE. That is correct.

Mr. COBURN. All right.

Now, then, with reference to purchases under the Defense Production Act, there were what were called buying programs set, were there not?

Mr. LAWRENCE. That is correct.

Mr. COBURN. And you say the amounts purchased under those buying programs were not limited or governed by the objectives that were set?

Mr. LAWRENCE. For the stockpile, that is correct.

Mr. COBURN. For the Stockpile Act, is that right?

Mr. LAWRENCE. That is correct.

Mr. COBURN. And back in 1951 the purchases under the Defense Production Act and the defense production funds were governed by these purchase programs, the objectives of the purchase programs?

Mr. LAWRENCE. That is correct.

Mr. COBURN. And they were set in 1951 by the Munitions Board, too?

Mr. LAWRENCE. No. They were set by the Defense Production Administration.

Mr. COBURN. I see, by the Defense Production Administration.

And then, subsequently, the goals for the purchases under the Defense Production Act were set by ODM?

Mr. LAWRENCE. That is correct, sir.

Mr. COBURN. And OCDM?

Mr. LAWRENCE. That is correct.

Mr. COBURN. And OEP at the present time?

Mr. LAWRENCE. That is right.

Senator SYMINGTON. Will counsel yield?

Mr. COBURN. Yes, surely.

Senator SYMINGTON. Am I to understand you were purchasing, under the Defense Production Act, quantities of materials on the strategic list of the national stockpile beyond the maximum objectives of the national stockpile?

Mr. LAWRENCE. Quite often, this was the case, Senator; yes, sir.

Senator SYMINGTON. In that way, you would automatically exceed your maximum objective, would you not?

Mr. LAWRENCE. Yes, sir.

Actually, the Defense Production Act goals were usually set in terms of capacity that should be available to the United States, and the purchase programs that were associated with them was usually one means of obtaining that capacity. The Defense Production Act purchases were not purchased for keeping shut up tight like in the stockpile, but were merely put there on a put basis, in other words, so after a contractor, say, had expanded his capacity, he had a right to put, if he could not sell that capacity in the open market.

The Defense Production Act inventories were never supposed to be kept in the Government forever, though. They were supposed to be usually purchased for resale at some later period of time.

Senator SYMINGTON. I said, "would automatically increase beyond the maximum objective"; but should have said you could automatically increase beyond maximum objectives.

Mr. LAWRENCE. That is correct, sir.

Senator SYMINGTON. Then these additional amounts purchased, were they purchased to recognize the importance of having plant capacity? Was that the word you used?

Mr. LAWRENCE. That is correct.

Senator SYMINGTON. Then this was really another major stockpile program, was it not?

Mr. LAWRENCE. Well, it certainly resulted in it. The original intention was not a purchase program, but in many commodities we have certainly stockpiled in two directions.

Senator SYMINGTON. One final question: When the national stockpile objectives were set, which, as I understand it, was through the recommendations of the defense mobilization people, with the concurrence and recommendation of the military, was there any liaison between what was done under the Defense Production Act and what was done under the National Stockpile Act? Was there running association between the two?

Mr. LAWRENCE. Oh, yes, sir.

Senator SYMINGTON. There was.

Mr. LAWRENCE. We had constant liaison between the Defense Production Administration and the Munitions Board of the Department of Defense.

Senator SYMINGTON. So that if you did go over the maximum objectives, everybody understood——

Mr. LAWRENCE. That is correct, sir.

Senator SYMINGTON (continuing). That it had been done and the reasons for it, is that right?

Mr. LAWRENCE. That is correct, sir.

Senator SYMINGTON. Thank you. Thank you, Mr. Counsel.

Mr. COBURN. Now, Mr. Lawrence, you have explained these fundamental differences here with reference to buying under the Stockpile Act and the Defense Production Act.

To revert again to the objectives in platinum, was this objective of 590,000 ounces changed at any time subsequent to June of 1951?

Mr. LAWRENCE. Yes, sir. On August 2, 1951, the objective was increased from 590,000 troy ounces to 790,000 troy ounces.

Mr. COBURN. Do you have any information as to the basis for the increase in that objective?

Mr. LAWRENCE. The records show that this increase was due to an Air Force changeover to platinum points in aircraft spark plugs, and a further increase in the need of platinum to be used in the platforming process of petroleum refining.

Mr. COBURN. Were there subsequent changes in the objectives on platinum?

Mr. LAWRENCE. Yes, sir.

Mr. COBURN. Just the changes, now.

Mr. LAWRENCE. September 28, 1954, there was a long-term objective established for platinum by the Office of Defense Mobilization of 879,750 ounces.

On May 16, 1956, the minimum objective was established by ODM at 95,000 ounces and the maximum objective was set at 235,000 ounces.

Mr. COBURN. What was the cause of that very large decrease?

Mr. LAWRENCE. The reduction was due to a 35-percent reduction in requirements.

Mr. COBURN. You mean military requirements? Excuse me for interrupting you.

Mr. LAWRENCE. No, not entirely military requirements. They are requirements for other uses of platinum, such as petroleum refining and that type of alloy materials, that type of thing, which show the majority of the reduction. But the substitution of palladium was the major reason for that sharp reduction.

There was an objective established at that same date, May 16, 1956, for palladium of 475,000 ounces.

This material had been found to be an equal substitute for many of the applications of platinum, and it was only about one-fourth as costly.

Mr. COBURN. Was this the first time we had had an objective in palladium?

Mr. LAWRENCE. That is correct, sir.

Mr. COBURN. All right.

Mr. LAWRENCE. June 30, 1958, the objective minimum was retained at 95,000 ounces by ODM, but the maximum was reduced to 154,000.

This was caused by the reduction from 5- to 3-year mobilization planning period.

There was no change in the minimum objective at this time because the minimum objective, instead of a calculated deficit for a 5-year war, actually was based on a peak deficit which would have occurred at the end of the third year.

Therefore taking away the last 2 years of the war planning period did not make any change in the minimum objective.

The final review we have up until now is January 14, 1960, when a minimum objective was reduced to 65,000 ounces, and the maximum objective was set at 165,000 ounces. This increase in the maximum here is a reduction in the supply.

Mr. COBURN. You say 165,000 ounces?

Mr. LAWRENCE. That is correct.

Mr. COBURN. And there it remains today?

Mr. LAWRENCE. Yes.

Mr. COBURN. That is all, Mr. Chairman.

Senator SYMINGTON. Thank you, Mr. Lawrence.

Mr. COBURN. The next witness, Mr. Chairman, is Adm. John D. Small.

Senator SYMINGTON. Good morning, Admiral.

Mr. SMALL. Good morning, Senator.

Senator SYMINGTON. It is a privilege to have you with us.

It is the custom of this committee to have all witnesses sworn.

Do you swear the testimony you give this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SMALL. I do.

Senator SYMINGTON. Be seated, please. Proceed, counsel.

Mr. COBURN. Admiral, I do not believe you have been before the committee heretofore, and, therefore, I would like to have you identify yourself by giving us your full name and address.

TESTIMONY OF ADM. JOHN D. SMALL (RETIRED), FORMER CHAIRMAN OF THE MUNITIONS BOARD

Mr. SMALL. My name is Small, John D. Small. My present address is 4201 Cathedral Avenue NW., Washington, D.C.

Mr. COBURN. May I ask you: Were you at any time Chairman of the Munitions Board?

Mr. SMALL. Yes, I was.

Mr. COBURN. When was that?

Mr. SMALL. From late 1950 until early 1953.

Mr. COBURN. You had, prior to that, been an officer in the U.S. Navy?

Mr. SMALL. Yes, some years before that.

Mr. COBURN. And had retired when?

Mr. SMALL. I had gone on the inactive list of the Navy back in 1926, as I recall, and came back into the Navy at the time of World War II. It was in January 1942.

I stayed in it for some 5 years, and then went back to business, but was called back at the time of Korea in November of 1950, and stayed in it until January of 1953.

Mr. COBURN. And then went to the Munitions Board?

Mr. SMALL. No. I was in the Munitions Board from November of 1950 until——

Mr. COBURN. Oh, I misunderstood you. I thought you were talking about the Navy.

You went into the Munitions Board in 1950 and remained there until 1953?

Mr. SMALL. Yes. I should go back and correct one thing. I retired from the Navy with 20 years of service, and my recollection is 1946 or 1947.

Mr. COBURN. Admiral, I would like to direct your attention to the situation in July of 1951, at which time, as I understand it, you were then Chairman of the Munitions Board?

Mr. SMALL. That is correct, sir.

Mr. COBURN. And was your attention brought to the acquisition of a supply of platinum at that time for the stockpile?

Mr. SMALL. Yes, it was.

Mr. COBURN. 500,000 troy ounces of platinum?

Mr. SMALL. Yes.

Mr. COBURN. That was an immense amount of platinum, was it not?

Mr. SMALL. It is a lot of platinum.

Mr. COBURN. Do you recall writing a letter on July 11, 1951, authorizing and directing the purchase of 500,000 troy ounces of platinum?

Mr. SMALL. Yes, sir; I do.

Mr. COBURN. Do you have a copy of that letter before you? You should have.

Mr. SMALL. I have been furnished it this morning, yes.

Mr. COBURN. Mr. Chairman, I would like to offer for the record this letter dated July 11, 1951, from J. D. Small, Chairman of the Munitions Board, to the Honorable Jess Larson, Administrator of GSA, and I will read this entire letter because I think it is important.

MUNITIONS BOARD,
Washington, D.C., July 11, 1951.

Hon. JESS LARSON,
Administrator, General Services Administration.

DEAR MR. LARSON: My staff is advised that the Emergency Procurement Service is endeavoring to consummate a purchase of 500,000 troy ounces of platinum. This amount, if purchased for the stockpile, would exceed the terms of the stockpile purchase directive and would cause the inventory to exceed the total stockpile objective by approximately 150,000 ounces.

It is understood that the Emergency Procurement Service has authorization to purchase for the account of the Department of the Navy 35,000 ounces of platinum to replace the amount recently loaned by order of the President. My staff has made a quick review of the mobilization requirements for platinum

and the indications are that the stockpile objective, hence the purchase program, will be increased by something between 100,000 and 200,000 ounces.

In order that the opportunity to purchase this material will not be lost through lack of sufficient authority, you are authorized to purchase for the stockpile the entire amount remaining after setting aside the 35,000 ounces for Navy account to replace the borrowed material. It is my understanding that the Defense Production Administration has agreed to certify for purchase under Public Law 774 any part of this platinum which exceeds the stockpile requirement. I believe that it would be well for this certification to stand until a formal revision of the stockpile objective has been made. If, under this revision, the entire amount is not needed to meet Navy and stockpile requirements, purchase for resale of any balance could then still be accomplished.

Sincerely yours,

J. D. SMALL, *Chairman.*

Now, let me see, so that we understand this letter, at the time that you wrote this letter as Chairman of the Munitions Board, the Board had the responsibility for setting the objectives for purchases under the Stockpile Act, did it not?

Mr. SMALL. That is right.

Mr. COBURN. And at the time that you were made acquainted with this opportunity, so it was thought, to purchase 500,000 troy ounces of platinum, you knew that the objective then standing for the purchases under the Stockpile Act did not permit that large a purchase?

Mr. SMALL. That is right.

Mr. COBURN. And you say in your letter there that this does exceed the stockpile objective then current, but you say that a quick review of the mobilization requirements for platinum indicate in your office that the objective will be increased by something between 100,000 and 200,000 ounces?

Mr. SMALL. That is right.

Mr. COBURN. Your letter also makes mention of the fact that the Navy owed the stockpile 35,000 ounces of platinum. Now, let us see, will you explain that so that we are sure we understand it?

Mr. SMALL. Yes, sir.

The Navy was beginning the use then of Fiberglas, and the little spinnerets——

Senator BUSH. Would you kindly get up to your microphone, Admiral? I cannot hear very well.

Mr. SMALL. The Navy at that time was beginning to use Fiberglas, and the little holes or dies, what they call spinnerets, through which the molten glass is forced, were made out of platinum, and platinum was not available in the open market, and the Navy had to have the Fiberglas.

Therefore, it was arranged, and it took a great deal of effort, and it was very difficult to do, for the President to authorize the loan of 35,000 ounces from the stockpile, which was done, on condition that it be replaced as soon as practicable.

Mr. COBURN. As I understand it, then, of course, this was a state of national emergency at this time?

Mr. SMALL. That is correct.

Mr. COBURN. The Korean conflict was then in existence, is that right?

Mr. SMALL. That is right.

Mr. COBURN. And under the provision of the Stock Pile Act, it permits this sort of thing in the case of a national emergency?

Mr. SMALL. That is correct.

Mr. COBURN. 35,000 troy ounces of the platinum was transferred by order of the President?

Mr. SMALL. Yes.

Mr. COBURN. From the stockpile to the Navy, is that right?

Mr. SMALL. Yes. As a matter of fact, it was transferred for the use in manufacturing these spinnerets, which was in the hands of a contractor, a Navy contractor. The Navy was responsible.

Mr. COBURN. Yes. So that at the time you wrote this letter, the Navy owed the stockpile 35,000 ounces of platinum?

Mr. SMALL. That is right.

Mr. COBURN. And so your letter took that into account and authorized the purchase under the Stockpile Act for the stockpile of 500,000 ounces of platinum less the 35,000 that the Navy owed the stockpile?

Mr. SMALL. Correct.

Mr. COBURN. And which would also be put in the stockpile to balance accounts between the stockpile and the Navy?

Mr. SMALL. That is right.

Mr. COBURN. Then you say:

It is my understanding that the Defense Production Administration has agreed to certify for purchase under Public Law 774 any part of this platinum which exceeds the stockpile requirement.

Now, Public Law 774 is the Defense Production Act, is it not?

Mr. SMALL. It is.

Mr. COBURN. And by your letter here you anticipated you would get from the Defense Production Administration authority to purchase as much of this platinum for the defense production inventory as exceeded the stockpile requirements?

Mr. SMALL. That is right.

Mr. COBURN. And you anticipated that later on stockpile requirements would be increased so that actually not much of this platinum would end up in the defense production inventory, is that right?

Mr. SMALL. That is right.

Mr. COBURN. But, if any did, it could then be resold?

Mr. SMALL. It could be. Anything that went to them could be resold.

Mr. COBURN. Now, that is pretty much the substance of your letter, is it not?

Mr. SMALL. That is right.

In other words, we were following the law and making provisions here for Mr. Larson to be able to procure this platinum, if it were procurable.

Mr. COBURN. The entire lot of 500,000 ounces?

Mr. SMALL. The entire lot.

Mr. COBURN. I believe that is all, Mr. Chairman.

Senator SYMINGTON. Senator Thurmond, have you any questions?

Senator THURMOND. No questions, Mr. Chairman.

Senator SYMINGTON. Senator Bush?

Thank you Admiral. It is a privilege to see you again.

Mr. SMALL. Thank you, sir.

Senator SYMINGTON. Who is your next witness, Mr. Counsel?

Mr. COBURN. Capt. H. C. Maull, Jr.

Senator BUSH. Mr. Chairman, I am sorry I did not get a chance to study these papers.

I did not get them until this morning. They may have been in Saturday.

I am not making any criticism, but could counsel in a few moments just brief me?

Senator SYMINGTON. The committee counsel tries to put the witnesses on and let the facts speak for themselves.

Senator BUSH. I just wonder what we are shooting at here. What is the objective of the platinum hearings? I am not even familiar with that.

Mr. COBURN. Well, in the first place, we are developing the fact that purchases were made here beyond stockpile objectives, so long as they were purchased under the Defense Production Act.

To illustrate, the stockpile objectives are not the last final control over purchases that were made.

Then we are also going into this transaction because it represents a very large contract that was made under rather unusual circumstances.

Senator BUSH. That is fine.

Senator SYMINGTON. Captain Maull, will you rise?

Mr. MAULL. Yes, indeed.

Senator SYMINGTON. Do you swear the testimony that you give this subcommittee will be the truth, the whole truth, and nothing but the truth, sir, so help you God?

Mr. MAULL. I do, sir, so help me God.

Mr. COBURN. I believe you have not appeared before the committee. Will you identify yourself by giving us your name and address?

TESTIMONY OF CAPT. H. C. MAULL, JR. (RETIRED), FORMER ACTING DIRECTOR, PURCHASE DIVISION, GENERAL SERVICES ADMINISTRATION

Mr. MAULL. Harry C. Maull, Jr., 1320 Tuckerman Street NW., Washington, D.C.

Mr. COBURN. Are you now in the Government service, Captain Maull, I believe they call you?

Mr. MAULL. I retired 3 years ago last August.

Mr. COBURN. Prior to your retirement, what branch of the Government were you in?

Mr. MAULL. General Services Administration, the last place.

Mr. COBURN. How long were you with the General Services Administration?

Mr. MAULL. Since the time it was organized.

Mr. COBURN. I did not hear you.

Mr. MAULL. From the time it was organized until 1958, when I left.

Mr. COBURN. 1958, when you left?

Mr. MAULL. When I left; yes, sir.

Mr. COBURN. As I understand it, you said that you were with General Services from the time it was organized?

Mr. MAULL. Yes, sir; that is right.

Mr. COBURN. Until 1958?

Mr. MAULL. That is right.

Mr. COBURN. When was it organized?

Mr. MAULL. I do not recall the date, myself.

Mr. COBURN. What is that?

Mr. MAULL. I do not recall the date.

Mr. COBURN. Well, had it been organized by 1951?

Mr. MAULL. Oh, yes.

Mr. COBURN. Now, Captain, do you recall 1951, June of 1951, somebody approaching you on the basis of selling to the Government 500,000 ounces of platinum?

Mr. MAULL. I do.

Mr. COBURN. That was a truly tremendous amount of platinum; was it not?

Mr. MAULL. A tremendous amount of platinum; yes, indeed.

Mr. COBURN. Tell the circumstances under which you first knew of this possibility?

Mr. MAULL. I had a telephone call from the Administrator, a talk with Mr. Al Snyder, who said he had some gentlemen who were interested in selling platinum.

Senator BUSH. I cannot hear him.

Mr. COBURN. I cannot hear what you are saying.

Senator SYMINGTON. I cannot hear what you said. Will you speak a little slower?

Mr. MAULL. I had a bad case of pneumonia I am just getting over and I have mucus in my system.

Mr. COBURN. May I suggest for your own comfort and for our hearing that you take it easy now. Do not be in any rush. Speak slowly.

Mr. MAULL. What was the last question?

Senator SYMINGTON. I think you said that you had a telephone call from Mr. Snyder.

Mr. MAULL. That is right.

Senator SYMINGTON. And he asked you if you were interested in the purchase of any platinum?

Mr. MAULL. He had a man in the office.

Senator SYMINGTON. Pardon?

Mr. MAULL. He had men in the office who wanted to sell platinum.

Senator SYMINGTON. Men in the office who wanted to sell platinum?

Mr. MAULL. That is right.

Senator SYMINGTON. Who was Mr. Snyder?

Mr. MAULL. Special assistant to Mr. Larson, the Administrator.

Senator SYMINGTON. Was what?

Mr. MAULL. Special assistant to Mr. Larson.

Senator SYMINGTON. To Mr. Jess Larson?

Mr. MAULL. That is right.

Senator SYMINGTON. And he called you on the telephone in your office?

Mr. MAULL. That is right.

Senator SYMINGTON. Thank you.

Mr. MAULL. You are quite welcome, sir.

Mr. COBURN. Did he send these men over to see you then?

Mr. MAULL. He did.

Mr. COBURN. Who were they?

Mr. MAULL. One man was named—I have to get that, it has been about 10 years since I have seen this.

Mr. COBURN. You have all of those documents there.

Mr. MAULL. Mr. Robert Hollander and another man.
Mr. COBURN. Was it Knohl?
Mr. MAULL. Knohl?
Mr. COBURN. K-n-o-h-l.
Mr. MAULL. Knohl, both of Miami, Fla.
Mr. COBURN. Both from Miami, Fla.?
Mr. MAULL. That is right.
Mr. COBURN. Just the two of them?
Mr. MAULL. That is right.
Mr. COBURN. What did they tell you?
Mr. MAULL. Told me they had 500,000 troy ounces of platinum for sale. "Do you want to buy it?" I said, yes, if it met the specifications.
Mr. COBURN. I am sorry. They said they wanted to sell you 500,000 ounces of platinum?
Mr. MAULL. That is right.
Mr. COBURN. And you said you would be glad to buy it?
Mr. MAULL. I said we would be glad to buy it if the price was right.
Mr. COBURN. What was the price?
Mr. MAULL. $1 an ounce.
Mr. COBURN. How much an ounce?
Mr. MAULL. $1 an ounce.
Mr. COBURN. $1 an ounce?
Mr. MAULL. No; $100 an ounce.
Mr. COBURN. $100 an ounce?
Mr. MAULL. Yes.
Mr. COBURN. That makes a little difference, Captain.
Mr. MAULL. $100 an ounce.
Mr. COBURN. So that the purchase price of this lot of platinum was $50 million; was it not?
Mr. MAULL. Yes.
Mr. COBURN. What?
Mr. MAULL. Yes.
Mr. COBURN. $50 million. All right.
Now, did you, prior to seeing these men, did you get a letter about this platinum offering to sell it to the Government?
Mr. MAULL. Not prior to seeing them. After seeing them.
Mr. COBURN. After seeing them. All right.
After you had talked with them, you got a letter; did you?
Mr. MAULL. I did, sir. It is right in here.
Mr. COBURN. Mr. Chairman, I offer for the record a letter dated June 27, 1951, signed by George S. Knohl. It is on the letterhead of the Town Laundry & Dry Cleaning Co. of 1860 West Flagler Street. It does not say where.
Mr. MAULL. Miami, Fla.
Mr. COBURN. If I may read it. It it dated June 27, 1951.

TOWN LAUNDRY & DRY CLEANING,
June 27, 1951.

DEAR SIR: As per conversation in reference to the platinum. The amount is 500,000 ounces, type 9999.05.
Platinum coming from Mexico. Immediate shipment possible. The price is $100 per ounce. Would like to hear from you immediately.
Sincerely yours,

GEORGE S. KNOHL.

Senator SYMINGTON. You have not read it all. At the bottom it says, "Sooner or later you'll 'Go to Town.'"

Mr. COBURN. I thank you for your correction, Mr. Chairman.

Now, Mr. Witness, is this George S. Knohl the man that you had talked with in your office?

Mr. MAULL. He is the man.

Mr. COBURN. About this platinum?

Mr. MAULL. He is the man.

Mr. COBURN. Did you make a memorandum of this conversation?

Mr. MAULL. I do not recall a memorandum in this case.

Mr. COBURN. Well, we have from the file here a memorandum dated June 27, 1951.

Do you have that before you? It should be there. Those papers are all supposed to be in chronological order.

Mr. MAULL. Mine is not.

Mr. COBURN. Mr. Chairman, I offer for the record this memorandum dated June 27, 1951, reading as follows:

June 27, 1951.

To the File.
From: H. C. Maull, Jr.
Subject: Platinum.

I received a telephone call from Mr. Knohl, Miami, Fla., who was referred to me by Mr. A. E. Snyder, Special Assistant to the Administrator, concerning platinum.

Mr. Knohl stated that he has 500,000 troy ounces of platinum to offer at $100 a troy ounce.

He stated the platinum comes from South America, that he would submit an offer, in writing, and furnish details concerning analysis of the platinum.

Do you remember writing such a memorandum for the file, Captain Maull?

Mr. MAULL. I do, sir. I wrote it.

Mr. COBURN. Now, when you talked with these men——

Mr. MAULL. I was very careful, Mr. Counsel, to document this case.

Senator SYMINGTON. Would you repeat that?

Mr. MAULL. I was very careful to document this case.

Senator SYMINGTON. You were very what?

Mr. MAULL. Careful to document this case.

Senator SYMINGTON. Thank you, Captain.

Mr. COBURN. Captain, this was an immense amount of platinum, and you had never known these men before their coming to your office, had you?

Mr. MAULL. No, sir.

Mr. COBURN. Never seen them before?

Mr. MAULL. No, sir.

Mr. COBURN. Did you ask them where this platinum was coming from?

Mr. MAULL. I did.

Mr. COBURN. What did they say?

Mr. MAULL. At first they said they could not tell me. Then they said it was coming from Russia, it was owned by Russia.

Senator SYMINGTON. Repeat that. First they said they could not tell you?

Mr. MAULL. Could not tell me.

Senator SYMINGTON. Then they said it was coming from Russia?

Mr. MAULL. It was owned by Russia.

Senator SYMINGTON. It was owned by Russia?

Mr. MAULL. Yes. It was coming out of Mexico City. It was stored in Mexico City.

Senator SYMINGTON. Owned by Russia; stored in Mexico City?

Mr. MAULL. That is right.

Mr. COBURN. Is that what they told you when you first talked with them?

Mr. MAULL. That is right.

Mr. COBURN. Did you ask them who owned the platinum?

Mr. MAULL. Yes.

Mr. COBURN. And they said that it was owned by Russia?

Mr. MAULL. Yes, sir.

Mr. COBURN. By the Government of Russia?

Mr. MAULL. But strictly off the record; they told me all this in strict confidence.

Mr. COBURN. What is that?

Mr. MAULL. They said they would only tell me in strict confidence it was owned by Russia.

Senator SYMINGTON. They would only tell you in strict confidence that it was owned by Russia?

Mr. MAULL. That is right.

Senator SYMINGTON. $50 million worth of platinum?

Mr. MAULL. That is right.

Senator SYMINGTON. When you talked to them, did you talk to both of them at the same time, Mr. Hollander and Mr. Knohl?

Mr. MAULL. I think at that time it was Knohl I talked to.

Senator SYMINGTON. Just Knohl?

Mr. MAULL. Yes.

Senator SYMINGTON. It was just Mr. Knohl you were talking to at this time?

Mr. MAULL. As I recall.

Senator SYMINGTON. And he told you there were $50 million of platinum stored in Mexico City owned by Soviet Russia, correct?

Mr. MAULL. That is right.

Mr. COBURN. When you learned that this platinum was owned by Soviet Russia, that did not cause you to feel some apprehension as to whether this purchase could be made?

Mr. MAULL. I felt apprehensive to be in this case, but I thought if we could get 500,000 ounces out of Russia and put it in this country's stockpile, it would be well worth the effort.

Mr. COBURN. You really thought that it might be bought, though, did you?

Mr. MAULL. I thought so.

Mr. COBURN. All right.

Mr. MAULL. $50 million of American money is a lot to the Russians, you know.

Mr. COBURN. Now, Captain, I have a memorandum dated July 2, 1961, which I offer for the record, and it reads:

Mr. Cohn, consultant, and the writer again discussed with Mr. George S. Knohl, Miami, Fla., his offer, dated June 29, 1951, to furnish 500,000 ounces of platinum to the national stockpile.

JULY 2, 1951.

To the file.
From: H. C. Maull, Jr.
Subject: Platinum.

Mr. Cohn, consultant, and the writer again discussed with Mr. George S. Knohl, Miami, Fla., his offer, dated June 29, 1951, to furnish 500,000 ounces of platinum to the national stockpile.

I put through a tabulation sheet today covering the 500,000 ounces of platinum and arranged to have $500,000 deposited with the Chemical Bank & Trust Co., 165 Broadway, New York, N.Y.

It was definitely understood, after many telephone calls between Mr. George S. Knohl and his principals in Miami, Fla., that arrangements would be immediately made to ship the platinum from Mexico when the $500,000 was deposed in the Chemical Bank & Trust Co. However, in a conversation with Mr. Robert Hollander, Miami, Fla., this afternoon, Mr. Hollander stated that Mr. Knohl was not given authority to sell the platinum to the U.S. Government or the U.S. Army. During this conversation, Mr. Knohl suggested that Mr. Robert Hollander, Mr. E. B. Porterfield, and Mr. Kay O. Lance immediately come to Washington, D.C., to get the entire matter straightened out, as this office has already sent a telegram, dated July 2, 1951, accepting the offer for 500,000 troy ounces of platinum at $100 per troy ounce.

You remember writing that memorandum, do you, Captain?

Mr. MAULL. Very well, yes, indeed.

Mr. COBURN. Let me see that we understand this. What was this deposit with the Chemical Bank & Trust Co.? Who made that deposit?

Mr. MAULL. It was made by the Comptroller's Office, Mr. Johnston Russell, General Services Administration.

Mr. COBURN. It was made, then, by the U.S. Government?

Mr. MAULL. Oh, yes.

Mr. COBURN. With the Chemical Bank & Trust Co., in New York?

Mr. MAULL. That is right.

Mr. COBURN. What was the purpose of that deposit?

Mr. MAULL. To show good faith.

Mr. COBURN. To show what else?

Mr. MAULL. To show good faith on the part of the Government.

The money was deposited where nobody in the world could touch it until the material was delivered, analyzed, inspected, and passed.

Mr. COBURN. I am not sure that I understood you. Let me ask you this question and maybe this will make it clear. Was this $500 put up——

Mr. MAULL. $500,000.

Mr. COBURN. I mean $500,000 that was put up by the U.S. Government, put up as evidence of good faith on the part of the Government in making this purchase?

Mr. MAULL. Yes.

Senator SYMINGTON. Your answer is "Yes?"

Mr. MAULL. Yes.

Mr. COBURN. Why would the U.S. Government have to put up $500,000 as evidence of good faith?

Mr. MAULL. Because, apparently, the people we were buying it from did not trust us.

Senator SYMINGTON. What was that? I am sorry, I did not hear it.

Mr. MAULL. I said, apparently the people that were selling it to us did not trust us.

Senator SYMINGTON. You mean by "the people" the laundryman in Miami, Fla., did not trust the U.S. Government?

Mr. MAULL. No, Senator, I do not mean the laundryman. I mean the man representing the laundryman.

Senator SYMINGTON. Start over again. Let us have order in the room, please.

Mr. MAULL. I do not mean the laundryman. I mean the man the laundryman was representing.

Senator SYMINGTON. Who is that? The man whom the laundryman was representing did not trust the Government?

Mr. MAULL. I did not know exactly who it was, but it was Russia.

Senator SYMINGTON. I beg your pardon?

Mr. MAULL. I do not know exactly who it was, but it was Russia.

Senator SYMINGTON. It was Russia.

And so did Mr. Knohl tell you that the Russians did not trust us, and, therefore, you had to put up $500,000 to permit the Russians to sell us?

Mr. MAULL. Well, let me answer the question this way:

The answer to your question is "No," but to answer it another way, I think you will get the answer.

Senator SYMINGTON. You answer it any way you want.

Mr. MAULL. When I could not get delivery of this material, I instructed them all the time to make delivery. All the time we got an alibi, so, finally, I was told somebody in Washington talked too much; that the Russians found it was for the stockpile; they would not make shipment.

Senator SYMINGTON. Say that again. I did not understand it. Say it a little slower.

Mr. MAULL. The Russians said they understood it was for the American stockpile and for that reason would not ship it.

Senator SYMINGTON. Now, you do not know that except through Mr. Knohl?

Mr. MAULL. I go along with Knohl, the third party all the time. I do not know anything other than what this fellow told me.

Senator SYMINGTON. You did not know the third party at any time, is that right?

Mr. MAULL. I did not know the original party. I knew the third party were these laundry people. The objective was to get the material in stockpile. If that delivery had been made to the stockpile, it would have been a wonderful thing. We would be independent of the whole world as far as platinum is concerned. It was not made. But no one lost a 5-cent piece on it.

Senator SYMINGTON. If we purchased $50 million of platinum from Russia, we give them $50 million in dollars?

Mr. MAULL. That is right.

Senator SYMINGTON. To utilize any way they want for their own benefit around the world?

Mr. MAULL. That is right.

Senator SYMINGTON. There were other places that produced a great deal of platinum.

Mr. MAULL. You could not get it, Senator. It was not available.

Senator SYMINGTON. I beg your pardon?

Mr. MAULL. You could not get that because it was not available in any other part of the world. It comes from South Africa, but it was not available. We had bought all that was available.

Senator SYMINGTON. I see. Proceed, Mr. Counsel.

Mr. COBURN. I will say, Mr. Witness, we subsequently succeeded in getting a lot of platinum for the stockpile, did we not?

Mr. MAULL. We did.

Mr. COBURN. We are overstocked about 6 or 7 to 1 in platinum, so that we got plenty of it eventually, did we not?

Mr. MAULL. Eventually. I am talking about the time I made this contract.

Mr. COBURN. Now, Captain Maull, you say that these people, the laundry people in Florida, required the Government to put up $500,000 as evidence of its good faith in entering into this transaction?

Mr. MAULL. That is right.

Mr. COBURN. And did they require the Government to put up anything else?

Mr. MAULL. That is all.

Mr. COBURN. As evidence of its good faith?

Mr. MAULL. That is all.

Mr. COBURN. What about the letter of credit?

Mr. MAULL. The letter of credit was made after the contract was drawn up.

Mr. COBURN. What?

Mr. MAULL. The letter of credit was made after the contract was drawn.

Mr. COBURN. We will get to that in due time, but my point is that we not only put up $500,000 in cash, but we also put up a letter of credit, did we not?

Mr. MAULL. We put a letter of credit on and——

Mr. COBURN. How much was the letter of credit for?

Mr. MAULL. I do not know.

Senator SYMINGTON. As I understand it, you said the $500,000 cash deposit was canceled at the same time the letter of credit was put up?

Mr. MAULL. It was supposed to be, Senator. I do not know whether it was.

Senator SYMINGTON. And then the next question counsel asked you, how much the letter of credit was for.

Mr. MAULL. I do not recall that, Senator. It was handled by another division. It was handled by the Comptroller.

Mr. COBURN. To refresh your recollection, we put up a $50 million letter of credit, did we not, the Government?

Mr. MAULL. We did.

Mr. COBURN. With the Chemical Bank & Trust Co. in New York?

Mr. MAULL. That is right.

Mr. COBURN. And that was further evidence of good faith on the part of the U.S. Government in making this contract?

Mr. MAULL. Sure.

Mr. COBURN. Now, did we require these contracts——

Mr. MAULL. I might say with all foreign contracts you put up a letter of credit. Nothing unusual about that.

Mr. COBURN. All right.

Did we require these contractors to put up anything as evidence of good faith on their part?

Mr. MAULL. I think something. I do not recall right off, it was so many years.

Mr. COBURN. Do not the documents there in front of you show that we did require them to put up $10,000?

Mr. MAULL. I think it was $10,000.

Mr. COBURN. What is that?

Mr. MAULL. I think it was $10,000 had to be put up.

Mr. COBURN. With a bank down in Mexico?

Mr. MAULL. That is right.

Mr. COBURN. Do you know whether they actually did that?

Mr. MAULL. They did.

I do not know.

Mr. COBURN. What is that?

Mr. MAULL. The Comptroller was told——

Senator SYMINGTON. Who told you? We did not get that.

Mr. MAULL. The Comptroller's office.

Senator SYMINGTON. What Comptroller's office?

Mr. MAULL. The Comptroller of the General Services Administration.

Senator SYMINGTON. The Comptroller's office of the General Services Administration?

Mr. MAULL. That is right.

Senator SYMINGTON. Told you who put up $10,000 in Mexico?

Mr. MAULL. The company.

Senator SYMINGTON. What company?

Mr. MAULL. The Pan American Co.

(The following letter was subsequently received for inclusion in the record:)

GENERAL SERVICES ADMINISTRATION,
OFFICE OF FINANCE AND ADMINISTRATION,
Washington, D.C., August 23, 1962.

Mr. RICHMOND C. COBURN,
Counsel, Subcommittee on the National Stockpile and Naval Petroleum Reserves, Armed Services Committee, U.S. Senate, Washington, D.C.

DEAR MR. COBURN: With respect to the Pan American Loan Co. contract No. GS-OOP-1457(SCM) (platinum), a thorough examination of the records covering receipts and deposits for the calendar years 1952, 1953, and 1954, fails to disclose any record of the receipt and deposit of the $10,000 allegedly held or to have been held in escrow with the Bank of Mexico, Mexico City, in connection with subject contract.

Sincerely yours,

JOHNSTON RUSSELL,
Director, Credit and Finance Division.

Mr. COBURN. Mr. Chairman, I offer for the record a memorandum dated July——

Senator SYMINGTON. Before you do that, Mr. Counsel, I would like to identify some of the people in the memorandum Mr. Maull put in the file on July 2.

Who is Mr. Cohn, consultant?

Mr. MAULL. Mr. Cohn, consultant on platinum for the General Services Administration.

Senator SYMINGTON. What?

Mr. MAULL. Consultant for platinum on the General Services Administration.

Senator SYMINGTON. Was he a part-time consultant?

Mr. MAULL. He was paid by the day but never collected any salary.

Senator SYMINGTON. He was paid by the day but never took any salary?

Mr. MAULL. Never took any salary in his position or anything.

Senator SYMINGTON. What was his regular business?

Mr. MAULL. He had a research laboratory in New York City.

Senator SYMINGTON. He had a research laboratory in New York City?

Mr. MAULL. Of his own.

Senator SYMINGTON. Now, who was Mr. E. B. Porterfield?

Mr. MAULL. He came into the picture one day. That is all I know about him.

Senator SYMINGTON. He came in the picture one day and that is all you know about him?

Mr. MAULL. That is right.

Senator SYMINGTON. Who was Mr. Kay O. Lance?

Mr. MAULL. I do not know any papers coming—I did not see Lance at all. Knohl came and Hollander.

Senator SYMINGTON. And did you see Mr. Porterfield?

Mr. MAULL. Yes.

Senator SYMINGTON. And they were brought into the picture by Mr. Knohl?

Mr. MAULL. That is right.

Senator SYMINGTON. And you saw Mr. Hollander?

Mr. MAULL. Yes, I did.

Senator SYMINGTON. He was brought in the picture by Mr. Knohl?

Mr. MAULL. The same one.

Hollander and Knohl came into the picture at the same time, together, as partners.

Senator SYMINGTON. Hollander and Knohl came in at the same time?

Mr. MAULL. That is right, but Knohl handled the case most of the time, not Hollander.

Senator SYMINGTON. Thank you.

Mr. COBURN. Mr. Chairman, I offer for the record a memorandum dated July 6, 1951, from the files of the General Services Administration, a memorandum that was prepared by Mr. J. W. Creekmore.

Mr. MAULL. That is a digest of this file at that time.

Mr. COBURN. First, who was Mr. J. W. Creekmore?

Mr. MAULL. One of my assistants.

Mr. COBURN. One of your assistants, I believe you said?

Mr. MAULL. That is right.

Mr. COBURN. I see by this memorandum, I will not read it all because it goes over much of the ground we have already covered——

Mr. MAULL. Purely a digest.

Mr. COBURN. But, Mr. Witness, I see that this memorandum seems to refer to the principles in this transaction with whom you were dealing as Mr. C. B. Porterfield, Robert Hollander and Kay O. Lance, is that right?

Mr. MAULL. Lance, I do not recall ever seeing. It was Hollander, Knohl, and then this fellow Porterfield came in one day.

Mr. COBURN. That is not exactly what I am asking you. That is, I did not intend to bring that out.

What I am asking you is this, Captain:

Did you understand that in dealing with these people who had this platinum, the men that were the principles in the transaction were Porterfield, Hollander, and Lance?

Mr. MAULL. Not Lance. Porterfield and Hollander.

Mr. COBURN. Porterfield and Hollander?

Mr. MAULL. That is all. I do not know anything about Lance.

Mr. COBURN. And Knohl was the agent for them, is that it?

Mr. MAULL. Knohl and Hollander both claimed to be the agents for them.

Mr. COBURN. What is that?

Mr. MAULL. Knohl and Hollander both claimed to be agents for them.

Senator SYMINGTON. Both claimed to be the agents for whom?

Mr. MAULL. The owners of the platinum.

Senator SYMINGTON. Who, to the best of your understanding from them, were the Russians, is that it?

Mr. MAULL. That is right.

Senator SYMINGTON. Thank you.

Mr. COBURN. Now this memorandum does say this, and I ask you if your recollection is to this effect:

After being assured by Captain Maull that he could speak freely, Mr. Hollander stated that it was necessary that the material not be sold directly to the U.S. Government since a leak of information in this connection would most assuredly cause a revolution and much bloodshed in a country whose name he could not disclose?

Mr. MAULL. That is what the man said.

Mr. COBURN (reading):

And which country could easily be overrun by a foreign power, whereupon it was decided the Government would proceed with this transaction with extreme caution?

Mr. MAULL. That is what the man said.

Mr. COBURN. That is what the man said?

Mr. MAULL. That is what he said.

That is the reason, counsel, I made a record in this case, so if this came up 10 years from the time it happened——

(The complete memorandum is as follows:)

JULY 6, 1951.

File.
J. W. Creekmore.
Purchase Division.
Contract GS–OOP–1457 (SCM)—Platinum.
Pan American Loan Co., Inc.

The events leading up to the writing of the subject contract are summarized below:

On June 27, 1951, Mr. A. E. Snyder, special assistant to the Administrator, telephoned Capt. H. C. Maull, Jr., informing him that a Mr. George S. Knohl of Miami, Fla., had called him concerning his ability to offer 500 troy ounces of platinum to the Government. During these conversations it appeared the platinum would come from South America and Mr. Knohl indicated a desire on the part of his principles to offer the material without the usual red tape.

During the afternoon of the same date, Captain Maull telephoned Mr. Knohl and during their conversation it was developed that the quantity involved was 500,000 troy ounces instead of 500 troy ounces. In addition, Mr. Knohl stated that the platinum would come from Mexico instead of South America. Mr. Knohl was asked seven pointed questions concerning this material which questions appear in a letter to him dated June 28, 1961 and is made a part of this file. Mr. Knohl's reply of June 29, 1951 gave specific answers to the above questions and further stated that in order to complete this transaction it is necessary for the U.S. Government to place on deposit, purely for the purpose of showing good faith, $500,000 of the anticipated $50 million with the Chemical Bank & Trust Co., 165 Broadway, New York, N.Y., and should the platinum fail to comply

with the provisions of NSP specification P–41, no claim would be made against the money deposited. At the same time a deposit of $10,000 would be made by his principles with the Bank of Mexico guaranteeing delivery of the platinum. All payments were to be made through the aforesaid bank and any transfer charges resulting therefrom would be for the account of the seller.

Numerous conferences were held with members of the Office of the Comptroller and the Assistant Chief Counsel which ultimately resulted in the dispatch of a telegram incorporating the commitments usually found in a letter of intent, and the deposit of $500,000 to the account of Paul D. Banning with the said bank, both transactions being dated July 2, 1951.

After numerous telephone calls to his principles (C. B. Porterfield, Robert Hollander, and Kay O. Lance), both during and after the above action, Mr. Knohl insisted that it was necessary for Mr. Robert Hollander to come to Washington and explain to the Government an entirely new change of plan surrounding this transaction which Mr. Hollander stated in Captain Maull's office on July 2, 1951, would necessarily be the establishment of a letter of credit with the above-mentioned bank in lieu of the action taken by the Government. After being assured by Captain Maull that he could speak freely, Mr. Hollander stated that it was necessary that the material not be sold directly to the U.S. Government since a leak of information in this connection would most assuredly cause a revolution and much bloodshed in a country whose name he could not disclose and which country could easily be overrun by a foreign power, whereupon it was decided the Government would proceed with this transaction with extreme caution.

Mr. Studer, Officer of the Comptroller, who attended the latter conference on July 2, agreed to start proceedings on the establishment of a letter of credit and I was instructed by Captain Maull to prepare an appropriate contract in conjunction with Mr. Casque and see that such contract was delivered into the hands of Mr. Hollander. This was accomplished and the subject contract was personally delivered to Mr. Hollander at 8:50 p.m., July 3, 1951, in the lobby of the Mayflower Hotel.

Senator SYMINGTON. Captain Maull, I congratulate you on these memoranda. They show that you must have been worried about this arrangement.

Mr. MAULL. I was.

Senator SYMINGTON. You had received instructions to talk to these people from higher authority, and were making a record, in your office, of what you were doing. It looks to me as if you handled the matter efficiently.

Mr. MAULL. I appreciate that.

Senator SYMINGTON. I am not quite sure I agree; we put up a letter of credit, $50 million, to buy, and they put up $10,000 to sell, but, nevertheless, you kept a running file of this peculiar transaction.

Mr. MAULL. $10,000 to them was probably as good as $50 million to us.

Thank you, Senator. I want to thank the Senator for what he said. I appreciate it.

Mr. COBURN. Now, Mr. Chairman, I offer for the record a copy of a letter that was written on July 9, 1951, by T. F. Farrell, Deputy Administrator for Resources Expansion of the Defense Production Administration, to the Honorable Jess Larson, Administrator of the General Services Administration, and I will read this letter as follows.

Senator SYMINGTON. What is the date?

Mr. COBURN. July 9, 1951.

DEFENSE PRODUCTION ADMINISTRATION,
Washington, July 9, 1951.

GS38–11–DPA 42.

Hon. JESS LARSON,
Administrator, General Service Administration,
Washington, D.C.

DEAR MR. LARSON: In order to assure an increased supply of platinum and the utilization of such supply in the manner most advantageous to the national defense, it is necessary that the Government undertake the program of purchase and resale of platinum recommended by the Defense Minerals Administrator in his letter of July 5, 1951, to the Acting Administrator of the Defense Production Administration.

Pursuant to the provisions of the Defense Production Act of 1950 (Public Law 774, 81st Cong.), Executive Order 10161 dated September 9, 1950 (15 F.R. 61), and Executive Order 10200 dated January 3, 1951 (16 F.R. 61), I certify that in the interest of national defense and to carry out the express purposes of the said act and Executive orders, it is necessary under the provisions of section 303 of said act that the Administrator of General Services provide for the purchase of 119,000 ounces of platinum at an estimated cost of $100 per ounce. The material purchased is to be resold on the advice of the National Production Authority to meet the requirements of defense orders only.

Borrowing authority under section 304 of the Defense Production Act is hereby authorized in the amount of $11,900,000 for the administration of this program.

Sincerely yours,

(Signed) T. F. FARRELL,
Deputy Administrator for Resources Expansion.

Now, Captain Maull, as I understand it, this letter I have just read authorized the General Services Administration, where you were, to proceed with the purchase of 119,000 ounces of platinum?

Mr. MAULL. That is right.

Mr. COBURN. Under the Defense Production Act?

Mr. MAULL. That is what it said, but that was not under me at all. That was under another branch. It did not come under stockpiling at all.

Mr. COBURN. Yes, I realize that. But I say this authorized the purchase of 119,000 ounces of platinum?

Mr. MAULL. That is right.

Mr. COBURN. Under the Defense Production Act?

Mr. MAULL. That is right.

Mr. COBURN. The reason why this was necessary, this authorization, was because at the time this authorization was granted, the contemplated purchase of 500,000 ounces of platinum exceeded the stockpile requirements at that time by approximately this amount?

Mr. MAULL. That is right.

Mr. COBURN. Now, Mr. Chairman, to go back, I noticed that I did not offer for the record a little earlier document. Here is a memorandum of July 6, 1951, which I offer for the record, it being a memorandum written by Captain Maull, the witness, and I will read it as follows:

JULY 6, 1951.

To the file.
From: H. C. Maull, Jr.
Subject: Platinum.

I received a telephone call from Mr. Johnston Russell, Office of the Comptroller, stating that he understood a Mr. Malcolm H. Foulk, vice president, Chemical Bank & Trust Co., 165 Broadway, New York, N.Y., was on his way to see Mr. Jess Larson, Administrator, General Services Administration, concerning the letter of credit for $50 million.

I promptly contacted Mr. A. E. Snyder, Office of the Administrator, and informed him of the information I had received. I suggested to Mr. Snyder that Mr. Foulk be requested to see Mr. Johnston Russell or the writer, as full information concerning the letter of credit was in our possession.

I later received a telephone call from the Administrator's Office stating that Mr. Foulk just arrived to see Mr. Larson and I suggested that he be sent to my office to discuss the matter with Mr. Johnston Russell and myself.

Mr. Foulk arrived in about one-half hour, presented a letter from the Chemical Bank & Trust Co., dated July 5, 1961, signed by Mr. Harold H. Helm, president, and was curious to know how the bank had become involved in the $50 million letter of credit. I explained that the letter from Pan American Loan Co., Inc., to Mr. George S. Knohl, 1860 West Flagler Street, Miami, Fla., stated all transactions will be completed with the Chemical Bank & Trust Co., 165 Broadway, New York, N.Y.

Mr. Foulk stated that his bank had been unable to obtain any information concerning Mr. E. B. Porterfield and very little concerning Mr. Robert Hollander or Mr. Kay O. Lance. However, he stated that one of the gentlemen had met an official of the bank in Florida last winter and had a very brief conversation with him. In fact, I understand the conversation occurred while having a drink in one of the Florida bars.

Mr. MAULL. I wrote it.

Mr. COBURN. You wrote that memorandum; did you?

Mr. MAULL. Yes, sir.

Mr. COBURN. You still believed you had a good deal here; did you, Captain Maull?

Mr. MAULL. I did. I was told that maybe the people who owned that material would come back in and let us have it later on after the thing quieted down.

Mr. COBURN. Now, Captain, there is next——

Mr. MAULL. I had no reason to distrust them any more than I had reason to believe them.

Senator SYMINGTON. As I understand it, you said you had no more reason to distrust them than you had reason to believe them; is that correct?

Mr. MAULL. Than I had reason to believe them; yes.

Senator SYMINGTON. And, as I follow the way you are explaining this to us, you were told the Russians owned this platinum; and first, they wanted to sell it, and then they did not want to sell it; is that correct?

Mr. MAULL. They wanted to sell it but did not want to deliver it because it was going in the stockpile.

Senator SYMINGTON. How could they sell it but not deliver it?

Mr. MAULL. They finally found out it was going in the American stockpile and did not want to make delivery.

Senator SYMINGTON. After it was sold?

Mr. MAULL. Yes.

Mr. COBURN. What you are saying here——

Mr. MAULL. Is that clear, Senator?

Senator SYMINGTON. I think so.

Mr. COBURN. What you are saying here, Mr. Witness, is your conclusion of this situation; is that right? You concluded what you have just said?

Mr. MAULL. No, no.

Mr. COBURN. I mean you do not know. You were not with the Russians, were you?

Mr. MAULL. Oh, no.

I concluded. I was not there. Yes; that is right.

Mr. COBURN. Now, Captain Maull, you mentioned in this memorandum that has just been introduced in the record the Pan American Loan Co., Inc., for the first time?

Mr. MAULL. Yes.

Mr. COBURN. What was the Pan American Loan Co.?

Mr. MAULL. I do not know. I do not have any more information on that than you do.

Mr. COBURN. Was it the company that finally entered into the contract with the Government for the sale of the 500,000 ounces of platinum?

Mr. MAULL. That is right.

Mr. COBURN. And you finally did make a written contract, did you?

Mr. MAULL. That is right.

Mr. COBURN. With the Pan American Loan Co.?

Mr. MAULL. We did.

Mr. COBURN. Now, I offer for the record, Mr. Chairman, a memorandum dated July 10, 1951, written by the witness, Capt. H. C. Maull, Jr., reading as follows:

JULY 10, 1951.

To the file.
From: H. C. Maull, Jr.
Subject: Platinum.

In a telephone conversation with Mr. Robert Hollander, Mexico City, Mexico, he informed me that a representative was now with him in Mexico from Venezuela and Nicaragua and, upon receipt by Mr. B. J. Klarman of the telegram mentioned in previous memorandum, they expect to arrange for immediate shipment of the platinum and it should arrive at New York the latter part of this week.

Mr. MAULL. That is right.

Mr. COBURN. Do you remember writing that memorandum?

Mr. MAULL. I remember quite well.

Mr. COBURN. Who was Mr. B. J. Klarman, do you know?

Mr. MAULL. I have not the slightest idea.

Mr. COBURN. But this memorandum then assured you—I mean you were assured before writing this memorandum by a telephone conversation with Mr. Robert Hollander that the platinum would arrive the latter part of the week beginning July 10, 1951?

Mr. MAULL. That is right. Klarman must have been a man down there in Mexico City, but I did not know him at all.

Mr. COBURN. What is that?

Mr. MAULL. Klarman, we did not know at all here. He must have been in Mexico City.

Senator SYMINGTON. What was that? I did not hear you.

Mr. MAULL. Klarman must have been one of their men in Mexico City.

Mr. COBURN. Klarman was from Mexico City?

Mr. MAULL. I assume he was. I did not know.

Mr. COBURN. Did the platinum arrive in the latter part of that week?

Mr. MAULL. It never arrived.

Mr. COBURN. I offer for the record, Mr. Chairman, a copy of a letter dated July 12, 1951, written by Jess Larson, Administrator of GSA, to the Honorable Frederick J. Lawton, Director of the Bureau of the Budget, Washington, D.C.

JULY 12, 1951.

HON. FREDERICK J. LAWTON,
Director, Bureau of the Budget,
Washington, D.C.

DEAR MR. LAWTON: There is attached copy of certificate number GS38–11–DPA 42, dated July 9, 1951, addressed to me from Mr. T. V. Farrell, Deputy Administrator for Resources Expansion, Defense Production Administration, with regard to the program of the purchase and resale of platinum.

This certificate provides for the purchase of 119,000 ounces of platinum at a cost of $100 per ounce. The material purchased is to be resold on the advice of the National Production Authority to meet the requirements of defense orders only.

It is desired to institute this program as quickly as possible, and it is requested that $11,900,000 be made available at the earliest practicable date to this administration from the borrowing authority in the Defense Production Act of 1950.

Your early consideration and advice will be appreciated.

Very truly yours,

JESS LARSON, *Administrator.*

[Enclosure]

SEPTEMBER 27, 1951.

1. Program.
2. DPA certificate in effect:
   Number: GS 38–11–DPA 42.
   Date: July 9, 1951.
   Amount: $11,900,000.
3. Contractor(s): Not disclosed.
   Location of facilities: Not disclosed.
4. GSA Contract(s) No. (s): Not disclosed.
5. Program period: Fiscal year 1952.
6. Program description.—A purchase and resale program. The program contemplates the purchase of 119,000 ounces of a commodity at an estimated cost of $100 per ounce, and resale on the advice of the National Production Authority. It is stated that 110,000 ounces are to go to stockpile.

TABULATION OF DOLLAR REQUIREMENTS

Summarized dollar requirements, derived from analysis which follows, are:

Gross commitments	$11, 900, 000
Working capital	11, 900, 000
Probable ultimate net cost	0
Borrowing authority	11, 900, 000

ANALYSIS

Gross commitments.—The gross commitment is for 119,000 ounces at $100 per ounce, or $11,900,000.

Working capital.—The amount required for working capital is calculated to be the gross commitment. It is probable that this amount will never be fully in use. Whether it will, depends upon the rapidity of transfer to stockpile upon instructions of the National Production Authority.

Probable ultimate net cost.—After the absorption by stockpile of 110,000 ounces, it is the intention to dispose of the remainder at the prevailing market price. Since the present market price of the commodity is $93 per ounce, it would appear that a loss of $7 per ounce on 9,000 ounces, or $63,000, will be sustained. However, it is learned on good authority that the $93 per ounce market price is only nominal, and that 9,000 ounces, if actually available for delivery, would find a ready market at in excess of $100 per ounce. Hence, there

is no anticipated nonrecoverable cost in connection with the program.

Borrowing authority.—As indicated, the total cash requirement, all for working capital, is $11,900,000.

Prepared by:

R. D. MASON.

Recommended by:

HOWARD GREENBERG.

Concur:

A. J. WALSH,
IRVING GUMBEL,
Assistant Administrator for Defense Coordination.
MAX MEDLEY,
Comptroller.

Now, Mr. Witness, as I understand it, this letter here refers to only a part of the purchase of this platinum?

Mr. MAULL. That is right.

Mr. COBURN. The part that was being purchased under the Defense Production Act?

Mr. MAULL. Which I did not have anything to do with.

Mr. COBURN. Pursuant to authority that had been granted by the Defense Production Authority?

Mr. MAULL. That is right.

Mr. COBURN. Now, I offer for the record a memorandum dated July 17, 1951, which is another memorandum written by Captain Maull, reading as follows:

JULY 17, 1951.

To the file.
From: H. C. Maull, Jr.
Subject: Platinum.

Reference is made to my memorandum, dated July 17, 1951, concerning a conference held in this office with Mr. E. H. Threadgill, Florida East Coast Land & Investment Co., concerning the platinum purchase.

In the conversation, Mr. Threadgill stated that Mr. Kay O. Lance, in his telephone conversation with Mr. Threadgill, stated it was his belief someone is attempting to be paid off.

I attempted, in every possible way, to find out, from Mr. Threadgill, just who was attempting to be paid off, but was unsuccessful. Mr. Threadgill stated that no details were furnished him in the conversation, but, instead, he was merely to discuss certain matters with Mr. E. B. Porterfield, who was registered at the Congressional Hotel, Washington, D.C.

Did you talk with Mr. Porterfield when he was up here on that occasion?

Mr. MAULL. No.

Mr. COBURN. Who was this Mr. Threadgill?

Mr. MAULL. I have not any idea. That was just in the conversation. I never saw him before or since.

Mr. COBURN. You just got this telephone conversation, did you, or call from Mr. Threadgill, is that right?

Mr. MAULL. Yes.

Mr. COBURN. You were hearing from a great many different people about this platinum sale, were you not?

Mr. MAULL. Yes. But I only paid attention to those of Knohl & Hollander, who were supposed to be representatives. When this thing came out, I put this memorandum in the file anyhow. I thought I should.

Senator SYMINGTON. You only paid attention to Knohl & Hollander?

Mr. MAULL. That is right.

Senator SYMINGTON. But you thought, inasmuch as Mr. Threadgill had approached you, you should put the record in the file anyhow, is that right?

Mr. MAULL. Especially since he said somebody was trying to be paid off.

Senator SYMINGTON. Especially when he said somebody was trying to be paid off?

Mr. MAULL. That is right.

Senator BUSH. What did he mean? Who was going to get paid off?

Mr. MAULL. I have not any idea.

Senator BUSH. You did not ask him?

Mr. MAULL. I asked him, but he would not tell me.

Senator BUSH. Did you think Mr. Threadgill was trying to do you a favor in advising you about this prospective payoff?

Mr. MAULL. I did not know what to think, frankly.

Mr. COBURN. Mr. Chairman, I offer for the record a memorandum by the witness dated July 31, 1951, reading as follows:

JULY 31, 1951.

To the file.
From: H. C. Maull, Jr.
Subject: Platinum.

I received a telephone call from Mr. George S. Knohl, Miami, Fla., telephone number Miami 5-0039, stating that Mr. Robert Hollander was with him and desired to talk to me concerning the platinum purchase.

I pointed out to Mr. Hollander that this service has done everything requested but, thus far, the Pan American Loan Co., Inc., have not returned the contract, although he advised me, under date of July 21, 1951, that the contract had been signed by himself, Mr. Kay O. Lance, and he would arrange to have Mr. E. B. Porterfield sign, upon his arrival in Mexico City, Mexico, on Sunday, July 22, or Monday, July 23, 1951, then promptly forward it to me, airmail special delivery.

Mr. Hollander stated he had just received word from Mexico City, Mexico, that the platinum is now ready and he intends to proceed to Mexico City, Mexico, this afternoon. He stated that he would, upon Mr. E. B. Porterfield's arrival tomorrow morning, have Mr. Porterfield sign the contract and forward it to me, airmail special delivery.

Mr. Hollander stated that they are now dealing direct with agents of the Russian Government, who have been exceedingly difficult to do business with.

Mr. Hollander inquired if arrangements could be made to have a man come to Mexico City, Mexico, and arrange for the assay in that city. I informed Mr. Hollander that such arrangements would not be satisfactory as the material must be delivered to this country, inspected and assayed before payment will be available.

According to Mr. Hollander, he will call me from Mexico City, Mexico, sometime tomorrow and let me know about the contract and what progress is being made in arranging for shipment of the platinum.

Now, so that I am sure we understand what you say here, Captain Maull, do I understand that Mr. Hollander suggested to you by telephone that the platinum be assayed or inspected?

Mr. MAULL. That is right.

Mr. COBURN. Down there in Mexico City?

Mr. MAULL. That is right.

Mr. COBURN. Before it was to be shipped out of the country?

Mr. MAULL. He made that suggestion several times. I told him no.

Mr. COBURN. And did you ask him why he wanted that done?

Mr. MAULL. I did not ask him why he wanted it done. I told him I wanted it tested in the United States, not in Mexico.

Mr. COBURN. I am sorry, I did not get that.

Mr. MAULL. I told him I wanted a test analysis in the United States, not in Mexico.

Mr. COBURN. Did I understand you to say that you told him that you could not do that; that the platinum had to be assayed or tested in the United States?

Mr. MAULL. I did not tell him I could not do it. I told him I would not do it.

Mr. COBURN. Would not do it, all right.

You then said that you would not allow the platinum to be assayed or inspected outside the United States?

Mr. MAULL. That is right.

Mr. COBURN. That it had to be brought here to be assayed?

Mr. MAULL. After it was assayed down in Mexico, no one knew what would be done with the real platinum. I would not know. It had to be done up here in Washington, for the United States, anyhow, to do it all over again.

Mr. COBURN. Let me ask you this, Captain:

When this man suggested that the platinum be assayed down there in Mexico, did that not cause you to be quite suspicious of this transaction?

Mr. MAULL. That is the reason, Mr. Counsel, I told him I would not do it. Certainly I was suspicious.

Mr. COBURN. But you went on trying to get the platinum, did you not?

Mr. MAULL. That is right.

Mr. COBURN. Now, Mr. Chairman, I offer for the record another memorandum dated August 2, 1951, that was prepared for the file by the witness, Captain Maull, and I will read it as follows:

AUGUST 2, 1951.

Memorandum
To the file.
From: H. C. Maull, Jr.
Subject: Platinum.

I finally succeeded in contacting Mr. Robert Hollander at the de Pardo Hotel—

I think you mean the de Prado, do you not?

Mr. MAULL. That is what he gave me. I do not know. It was 11 years ago.

Mr. COBURN (continuing):

Mexico City, Mexico, by telephone, this morning.

Mr. Hollander stated that he attempted to get me at 7 p.m., last night, but was unsuccessful. I informed Mr. Hollander that the General Services Administration operator had been instructed to transfer the call to my home, Randolph 4545, and I was unable to understand why the instructions were not carried out.

Mr. Hollander stated that the contract would be completely signed and forwarded to me today, airmail special delivery.

Mr. Hollander stated that they have had considerable difficulty in the platinum deal, due to the fact that Mr. Kay O. Lance received a telephone call from the attaché of the Russian Embassy, but he, Mr. Lance, was drunk and in the con-

versation, apparently not knowing who he was actually talking to, told the attaché that he had absolutely no confidence in the ——— Russians. According to Mr. Hollander, this caused considerable difficulty which he now states has been overcome.

Mr. Hollander stated that arrangements are now being made to ship the platinum and he will let me know 24 hours before actual shipment is made.

You remember that memorandum, do you?

Mr. MAULL. I remember it very well. But the shipment was never made.

Mr. COBURN. Mr. Chairman, I offer for the record a handwritten letter dated August 2, 1951, written by Robert Hollander, addressed to Captain Maull, and, being short, I will read it.

It is on the letterhead of the Pan-American Loan Corp. de Mexico, S.A., and reads as follows:

[Pen and ink letter]

PAN-AMERICAN LOAN CORP. DE MEXICO, S.A.,
August 2, 1951.

DEAR CAPTAIN MAULL: Sorry for the delay, but could not help myself. Porterfield and Lance sold us something which they did not have.

However, we are procuring the platinum for you.

Porterfield and Lance are no long connected with us.

Sincerely,

(Signed) ROBERT HOLLANDER.

Do you remember seeing that?

Mr. MAULL. I remember it very well.

Mr. COBURN. Now, eventually, did you receive a signed copy of the contract executed by the Pan American Loan Co.?

Mr. MAULL. I did.

Mr. COBURN. Mr. Chairman, I offer for the record copy of a letter dated August 7, 1951, written by the witness, H. C. Maull, Jr., to the Pan American Loan Co., Inc. I will read just this short part of it:

Receipt is acknowledged of three copies of the subject contract executed by you as of August 2, 1951. It is noted that you failed to supply certain information required on the face sheet of the contract—

and so on.

(The complete letter is as follows:)

AUGUST 7, 1951.

Subject: Contract No. GS–OOP–1457 (SCM)—Platinum.

PAN AMERICAN LOAN COMPANY, INC.,
Av. Juarez 14, Room 602,
Mexico City, Districto Federal, Mexico.
(Attention: Mr. Robert Hollander, executive vice president).

GENTLEMEN: Receipt is acknowledged of three copies of the subject contract executed by you as of August 2, 1951. It is noted that you failed to supply certain information required on the face sheet of the contract.

It is requested, therefore, that the required information be furnished on the accompanying document, exhibit A, to be executed in triplicate by the same officials of the corporation who signed the contract. Exhibit A will be part of the formal contract. In addition, since not all the signatures on the contract were easily legible, please have the signators imprint their names below their signatures.

Very truly yours,

H. C. MAULL, Jr.,
Acting Director, Purchase Division.

AUGUST 7, 1951.

EXHIBIT A

CONTRACT NO. GS-OOP-1457 (SCM)

Contractor represents—

(1) That the aggregate number of employees of the contractor and its affiliates is ☐ 500 or more, ☐ less than 500.

(2) That he is a ☐ regular dealer in, ☐ manufacturer of, the supplies offered.

(3) That he ☐ has, ☐ has not, employed or retained a company or person (other than a full-time employee) to solicit or secure this contract, and agrees to furnish information relating thereto as requested by the contracting officer.

Indicate whether ☐ individual: ☐ partnership: ☐ corporation.

Incorporated in the State of_____.

PAN AMERICAN LOAN CO., INC.,
By HOBART HOLLANDER.

Attest:
By_____
Title_____
By_____
Title_____

(See also letter on p. 1589 concerning this contract.)

Mr. COBURN. Now, I offer for the record a memorandum dated August 8, 1951, by the witness, reading as follows:

AUGUST 8, 1951.

Memorandum.

To the file.
From: H. C. Maull, Jr.
Subject: Platinum.

I contacted Mr. Robert Hollander, De Pardo Hotel, Mexico City, Mexico, this afternoon (on August 8, 1951), by telephone, and inquired if he could inform me exactly when the platinum will be shipped.

Mr. Hollander stated that he could not furnish the information today, but will call tomorrow (call me the following day) to inform me when the first shipment will (would) leave.

I impressed upon Mr. Hollander that the letter of credit expires at the end of this month and it is (was) definitely his responsibility to have the material delivered before the expiration date. Mr. Hollander stated that positively the entire shipment will (would) be made before the letter of credit expires.

Mr. Hollander inquired if this Service would have any objection to Mr. George S. Knohl accompanying the shipment to New York and I informed him that this Service would have no objection, as I feel that it is a matter definitely to be determined by the Pan American Loan Corporation.

[Note added by the Stockpile Subcommittee on July 23, 1962, for hearing: The parts of above memorandum in parentheses were copied from pencil changes made on the memorandum. No indication given as to the author of these changes.]

Mr. COBURN. Do you remember writing that memorandum?

Mr. MAULL. Very well.

Mr. COBURN. Mr. Chairman, I offer for the record another memorandum by the witness for the file dated August 10, 1951, in which he states as follows:

AUGUST 10, 1951.

Memorandum.
To the file.
From: M. C. Maull, Jr.
Subject: Platinum.

I contacted Mr. Robert Hollander, de Pardo Hotel, Mexico City, Mexico, by telephone, this morning, (on the morning of August 10, 1951), and inquired whether he had received a letter from this office, dated August 7, 1951, pointing out certain omissions in the contract.

Mr. Hollander stated that he had not received the letter and last (on the previous) night, accompanied by a Mexican official, whose position, according to Mr. Hollander, is equivalent to the head of the FBI, called at the post office and examined all incoming mail, but was unable to locate the letter in question. He stated that upon receipt of the letter, he will execute the additional document and return it to this office airmail special delivery.

I inquired of Mr. Hollander when the first shipment will (would) go forward and he stated that he expects the first shipment to be made over this weekend. He promised to call me at the office or my home, Randolph 4545, and let me know twenty-four (24) hours before the shipment is made.

Mr. Hollander stated he is (was) waiting for all the platinum to arrive in Mexico City, which he feels (felt) certain will (would) be very shortly; 85,000 ounces arrived this morning, which makes (made) a total in Mexico City of 300,000 ounces.

[Note added by the Stockpile Subcommittee on July 23, 1962, for hearing: The parts of above memorandum in parentheses were copied from pencil changes made on the memorandum. No indication given as to the author of these changes.]

Do you remember writing that memorandum for the file?

Mr. MAULL. I do, sir; yes, indeed.

Mr. COBURN. And that reflected what Mr. Hollander had told you over the telephone that day?

Mr. MAULL. That is right, exactly.

Mr. COBURN. I offer also for the record, Mr. Chairman, a letter dated August 14, 1951, signed by Carl Rolle, Assistant Vice Chairman of the Stockpiling Program, to Mr. Walsh of GSA, and the letter reads as follows:

August 14, 1951.

Re Platinum.

Mr. A. J. WALSH,
Commissioner, Emergency Procurement Service,
General Services Administration.

DEAR MR. WALSH: Reference is made to a letter of July 11, 1951, from Mr. Small to Mr. Larson which authorized the purchase out of stockpile funds of the entire 500,000 ounces of platinum for which you were then negotiating. This authorization was on the premise that the stockpile objective as it then existed would be increased, that the Navy had a requirement against which some of the platinum could be purchased, and that the Defense Production Administration had agreed to certify any balance to be purchased for resale.

The stockpile objective has now been increased to 790,000 ounces and the purchase program of December 14, 1950, in the amount of 395,000 ounces, which was reduced on August 7, 1951, to 385,000 ounces in order to reflect an additional transfer acquisition in the interim, is now being increased to 585,000 ounces to reflect the 200,000-ounce increase in the total objective.

According to the latest record available here, you have purchased a total of 160,494 ounces, including the estimated outturn of the SCAP purchase. This would leave a balance of approximately 424,500 ounces required to fill the latest purchase directive.

It is therefore suggested that prior to the actual delivery of the 500,000 ounces of platinum, the commitment be divided up as follows: 424,500 ounces for the stockpile, approximately 35,000 ounces needed by the Navy to repay platinum borrowed from the stockpile and the balance of approximately 40,000 ounces under the purchase-for-resale certification which has been issued by the Defense Production Administration. If necessary, the Navy platinum could be covered by the Defense Production Administration authorization until arrangements are made for resale to the Navy.

Please let us know if you feel there is any better way to handle the matter. We will also be glad to take any necessary action with the Navy in getting the proper authorization to you for the platinum to replace the loan.

Sincerely yours,

(Signed) CARL ROLLE,
Assistant Vice Chairman, Stockpile Programing.

Mr. COBURN. Captain Maull, I just want to make sure we understand this letter which is rather complicated in some respects. Do I understand it to mean that in view of the fact that the stockpile objective has now been increased by 200,000 ounces, from 590,000 ounces to 790,000, that all of this platinum is directed to go into the stockpile except the 35,000 that the Navy needed and to balance the accounts in the stockpile and about 45,000 more than was excess that would go into the Defense Production Inventory?

Mr. MAULL. I never saw that before today, but that is my interpretation, too.

Mr. COBURN. Now, Captain, I believe you have said, did you—I want to make sure we understand this—that none of this platinum was ever delivered finally?

Mr. MAULL. None was ever delivered at all, none of it.

Mr. COBURN. You kept getting many, many telephone calls?

Mr. MAULL. That is right.

Mr. COBURN. From Mexico and Florida?

Mr. MAULL. Promises.

Mr. COBURN. Promises of delivery?

Mr. MAULL. That is right.

Mr. COBURN. And you, yourself, called many times?

Mr. MAULL. Many times.

Mr. COBURN. To Mexico City, is that right?

Mr. MAULL. That is right.

Mr. COBURN. And these people called on you in Washington frequently?

Mr. MAULL. That is right.

Mr. COBURN. And promised delivery and promised delivery and promised delivery, but never made any?

Mr. MAULL. That is right.

Mr. COBURN. And eventually the contract was terminated?

Mr. MAULL. That is right.

Mr. COBURN. Mr. Chairman, I offer for the record a letter dated November 23, 1953, from H. C. Maull, Jr., Director of Purchase Division, GSA, to the Pan American Loan Co., Inc., at the de Pardo Hotel, Mexico City, Mexico.

It reads:

GENERAL SERVICES ADMINISTRATION,
EMERGENCY PROCUREMENT SERVICE,
Washington, D.C., November 23, 1953.

Subject: Contract No. GS–OOP–1457 (SCM)—Platinum.

PAN AMERICAN LOAN CO., INC.,
Mexico City, Mexico, D.F.

GENTLEMEN: Reference is made to the above-captioned contract which you entered into with the United States of America, August 14, 1951, for the purchase and sale of 500,000 troy ounces of platinum metal bars.

The records of this office indicate that you have failed to make any deliveries under the above contract in accordance with the schedule of deliveries contained therein. Consequently, pursuant to the provisions of paragraph 12(a) of the General Conditions for Strategic and Critical Materials and Services Contracts, you are hereby notified that, without prejudice to other rights which the United States may have as a result of your breach of contract conditions, your right to proceed with any or all deliveries under Contract No. GS–OOP–1457 (SCM) is hereby terminated.

Very truly yours,

(Signed) H. C. MAULL, Jr.,
Director, Purchase Division.

Mr. MAULL. That is right.

Mr. COBURN. You remember writing that letter, do you not, Mr. Witness?

Mr. MAULL. Very well.

Mr. COBURN. And that did terminate the contract?

Mr. MAULL. That terminated the contract.

Mr. COBURN. And you have heard nothing further from them?

Mr. MAULL. Not a word.

Mr. COBURN. From Mr. Hollander or Mr. Knohl or any of the other parties to this transaction?

Mr. MAULL. I never expected to.

Mr. COBURN. Mr. Chairman, before closing with this witness, I desire to read from the record the result of an investigation that was made with reference to Mr. Robert Hollander:

Robert Hollander was born July 14, 1901, in Austria. He came to the United States in 1921 and became a naturalized citizen of the United States in 1938. He has reportedly resided in Galveston, Tex., New York, and Miami, Fla., where he has been engaged in the laundry business. Hollander was last known to be residing in Mexico City as of 1959, where he represented himself as being engaged in the import-export business. In March of 1943, Hollander was arrested by the Miami Beach Police Department, Miami Beach, Fla., for obtaining money under false pretenses. He paid a fine of $10 and costs in connection with this charge. In July of 1951, Hollander became involved in a scheme to sell $50 million worth of platinum to the General Services Administration, an agency of the U.S. Government. Under this scheme Hollander and his associates negotiated with the Russians for the purchase of platinum which was to be resold to the U.S. Government, as the United States was then stockpiling platinum. Hollander made no secret of the fact that he was contacting the Russians. Although the operation of Hollander appeared to be a confidence scheme, it did not materialize and no prosecution was undertaken against Hollander. In March of 1955, he was arrested at Miami, Fla., and charged with violation of the Federal impersonation statute. The complaint against him was dismissed when one of the original complainants testified that the proposal of Hollander to allow the complainant to engage in the construction business in Mexico was not a Government proposal.

I believe I have no further questions of this witness.

Senator SYMINGTON. Who made the investigation?

Mr. COBURN. I am not at liberty, Mr. Chairman, for reasons of security, to disclose it.

Senator SYMINGTON. Senator Thurmond?

Senator THURMOND. I have no questions.

Senator SYMINGTON. Senator Bush?

Senator BUSH. Mr. Maull, you seem like a very careful man.

Mr. MAULL. Thank you, Senator.

Senator BUSH. Documenting this as thoroughly as you have.

Mr. MAULL. That is the reason I handled this particular case myself, Senator.

Senator BUSH. But were you not very suspicious about the people behind this deal all the time?

Mr. MAULL. I was suspicious but I still wanted the 500,000 ounces of platinum.

Senator BUSH. I am sorry, I cannot understand.

Mr. MAULL. I was suspicious, but I still wanted to get the 500,000 ounces of platinum.

Senator BUSH. Why were you so anxious to get that 500,000 ounces?

Mr. MAULL. The Munitions Board said we needed it for the stockpile.

Senator BUSH. You needed it?

Mr. MAULL. That is what it said.

Senator BUSH. What was the purpose of the stockpile, and the DPA Act? Is that not to stimulate production in this country?

Mr. MAULL. DPA, as I said before, is Public Law 320. This is a stockpile contract, not a DPA contract.

Senator BUSH. I am sorry, I do not hear this gentleman.

Mr. COBURN. He said, Senator, as I understood him, that this was a stockpile contract.

Mr. MAULL. That is right.

Mr. COBURN. Is that not what you said?

Mr. MAULL. That is right. The other was DPA, Public Law 774.

Senator BUSH. Was not part of this deal to go into the DPA stockpile?

Mr. MAULL. Part of it.

Senator BUSH. Some 1,100 and what is it? 119,000 ounces, was that not to go in——

Mr. MAULL. The reason, Mr. Jess Larson was Administrator of the General Services Administration and also Administrator of DPA. He had both jobs.

Senator BUSH. He had both jobs.

Mr. MAULL. That is right.

Senator BUSH. So part of it was to go into the DPA?

Mr. MAULL. That is right, and part to the Navy.

Senator BUSH. Do you think that was in accordance with the Defense Production Act, to put this platinum from Russia into the Defense Production Act?

Mr. MAULL. It was something done by the Administrator, not done by me.

Senator BUSH. What?

Mr. MAULL. That was done by the Administrator, not by me. The Administrator of the General Services Administration made the determination. I did not make it.

Senator BUSH. It was the decision of the Administrator?

Mr. MAULL. That is right.

Senator BUSH. Not yourself?

Mr. MAULL. That is right.

Senator BUSH. It did not occur to you that this was in violation?

Mr. MAULL. It did not.

Senator BUSH. Of the Defense Production Act?

Mr. MAULL. It did not.

Senator BUSH. Was there any discussion that it might be in violation?

Mr. MAULL. No.

Senator BUSH. Of the law?

Mr. MAULL. No discussion whatever.

Senator BUSH. You were not even suspicious that it might be, yourself?

Mr. MAULL. I was not.

Senator BUSH. You were not?

Mr. MAULL. No.

Senator BUSH. Were you familiar with the law?

Mr. MAULL. I know of it. I would not call myself familiar with it. I know of the law.

Senator BUSH. You know of the law?

Mr. MAULL. Yes.

Senator BUSH. Did it seem to you it was in violation of the law?

Mr. MAULL. I never even thought about it being in violation of the law.

Senator BUSH. You did not think of it?

Mr. MAULL. No.

Senator BUSH. Who was your authoritative boss at this time? Who was the Administrator?

Mr. MAULL. Mr. Jess Larson was the Administrator. Mr. A. V. Walsh was the Commissioner of our organization.

Senator BUSH. What was Mr. Larson's job at that time?

Mr. MAULL. Administrator, General Services Administration.

Senator BUSH. He was head of the GSA?

Mr. MAULL. That is right.

Senator BUSH. This is the most amazing business I have ever seen, Mr. Chairman.

Mr. MAULL. It is amazing.

Senator BUSH. I am amazed that our Government would be negotiating with a bunch of people like this without really knowing anything about them at all for a $50 million contract.

Mr. MAULL. We knew—it was the only——

Senator BUSH. I congratulate you, as the chairman did, on your care in documenting this whole series of events.

Mr. MAULL. Thank you, Senator.

Senator BUSH. But I must say I am amazed, nevertheless, that we go as far as we did with a bunch of crooks.

Mr. MAULL. But we did not know they were crooks.

Senator BUSH. What?

Mr. MAULL. We did not know they were crooks.

Senator BUSH. I mean, would it not be a prudent thing to find out in advance, before you negotiated a $50 million contract, as to what kind of people you are dealing with?

Mr. MAULL. We needed the platinum. We had the money. We had the satisfaction of knowing the letter of credit was in such terms that nobody would get a 5-cent piece unless they made delivery of the materials to this country.

Senator BUSH. The Chemical National Bank must have put you on notice that there was something phony about this thing, did they not?

Mr. MAULL. No.

Senator BUSH. Their letter seemed to me——

Mr. MAULL. No; the only thing about the Chemical National Bank, they did not know why they ever got the job.

Senator BUSH. I did not get that.

Mr. COBURN. He said the Chemical National Bank did not know how they had gotten the job holding the letter of credit in the bank.

Senator BUSH. It would seem to me that would have immediately made you and your associates, Mr. Larson and others, suspicious. Did it not?

Mr. MAULL. We were suspicious, but we wanted to get the platinum. We wanted the platinum for the stockpile.

Senator BUSH. What did he say?

Mr. COBURN. He said they were suspicious, but they wanted to get the platinum.

Senator BUSH. Was the letter of credit ever arranged with the Chemical Bank?

Mr. MAULL. Yes.

Senator BUSH. A letter of credit was arranged?

Mr. MAULL. It was.

Senator BUSH. And what was the charge in connection with that?

Mr. MAULL. I do not know.

Senator BUSH. You do not know?

Mr. MAULL. It went through the Comptroller's Office. Just a nominal charge.

Senator BUSH. I have no further questions, Mr. Chairman. This is a very puzzling situation.

Senator SYMINGTON. Senator Thurmond?

Senator THURMOND. I want to ask you this:

What conclusion did you finally reach about these people you were dealing with: That they were swindlers, that they were agents of Russia, that they were trying to obtain money under false pretenses, or what conclusion did you reach about them?

Mr. MAULL. The only conclusion I reached, they were agents of the Russians. They could not get any money. The bank was sewed up with the letter of credit so they could not make delivery until the material was delivered first. They could not get a 5-cent piece. It was not a question of money.

We made sure to put in every letter of credit that would stop anybody from getting a 5-cent piece out of it unless they made delivery of the material.

Senator THURMOND. Why do you think agents of Russia would have been dealing with you? Was it purely to get this money for the Russian Government?

Mr. MAULL. I do not know what their reasons were, but the Russians do funny things.

Let me tell you something off the the record here. I do not think you want this mixed up.

Senator SYMINGTON. You cannot say anything off the record here. Go right ahead, but you are on the record.

Mr. MAULL. Well, the first contract they made, they made with the Leonard J. Buck Co., of New York City, just to show you how the Russians work. We had six bids come in.

Senator SYMINGTON. Wait. Who is that?

Mr. MAULL. Leonard J. Buck.

Senator SYMINGTON. The first contact?

Mr. MAULL. The first manganese that we purchased for the stockpile was purchased through Leonard J. Buck, the agent of the Russians in this country.

Senator SYMINGTON. How do you spell "Buck"?

Mr. MAULL. Leonard J. Buck, B-u-c-k, & Co.

Senator SYMINGTON. Leonard J. Buck. I see.

Mr. MAULL. At that time we received six different bids, six different prices from six different concerns in this country. Buck was one of them. The day after I made the contract at a low price, my man come in and said, "Can I buy it from the second man?"

Senator SYMINGTON. Wait a minute. The day after you made the contract at a low price, what happened?

Mr. MAULL. My man in charge of the ores came in and said, "May I buy the second lot"——

Senator SYMINGTON. Your man in charge of what?

Mr. MAULL. Ores, o-r-e-s.

Senator SYMINGTON. Ores, o-r-e-s.

Mr. MAULL. Wanted to know if he could buy the second lot from the next man at the same price. He was going to reduce the price. I said yes, because I knew the answer, but he did not.

After, he came in and said, "I can't do it."

I said, "Why?"

He said, "Some so-and-so bought it yesterday afternoon."

Senator SYMINGTON. You have lost me. You said he could buy more from the second, lower, because he reduced the price?

Mr. MAULL. The low man's price.

Senator SYMINGTON. The low man's price?

Mr. MAULL. Provided he did not pay more for it. In the afternoon he said he could not do it.

Senator SYMINGTON. In the afternoon he said he could not do what he suggested?

Mr. MAULL. Because some so-and-so had bought it yesterday afternoon. It was me. One hundred and fifty thousand different tons from six different people. That is the way they do business.

Senator SYMINGTON. What is the point of your story?

Mr. MAULL. The point of the story was that they offered it to six different people, in answer to the Senator's question. You never know whether the agent is a bona fide agent, or whether it is just one person purchasing, or a half dozen persons.

Senator SYMINGTON. Were all of these from Russia?

Mr. MAULL. No.

Senator SYMINGTON. Or representing Russia?

Mr. MAULL. All American concerns, every one.

Senator SYMINGTON. But they were all representing Russia?

Mr. MAULL. Yes.

Senator SYMINGTON. Thank you, Senator.

Senator THURMOND. Is it your opinion that they did truly represent the Russian Government, or did they hold themselves out, do you think, as doing so?

Mr. MAULL. If I did not sincerely believe that they represented the Russian Government, I would not have done business with them.

Senator THURMOND. You say you would not have done business with them?

Mr. MAULL. I would not.

Senator THURMOND. If you had not thought so?

Mr. MAULL. That is right.

Senator THURMOND. What reason do you assign that they did not go through with that contract?

Mr. MAULL. Well, I was told, Senator, that they finally found out, the Russians did, that it was going to be put in the American stockpile, and that they were not going to put any platinum in the American stockpile.

Senator THURMOND. In other words, the reason they did not go through with it, so you were told——

Mr. MAULL. That is right.

Senator THURMOND (continuing). Is that they learned that this platinum was going to the American stockpile?

Mr. MAULL. That is right.

Senator THURMOND. And they did not want their platinum to go into our stockpile?

Mr. MAULL. That is right.

Senator THURMOND. Therefore, they reneged on the contract?

Mr. MAULL. That is right.

Senator THURMOND. And what did their agents explain to you as the reason for not going through with the contract?

Mr. MAULL. That is the explanation they gave me.

Senator THURMOND. That is the reason?

Mr. MAULL. Yes.

Senator THURMOND. That is the message they gave you?

Mr. MAULL. Purely verbal.

Senator THURMOND. Verbal?

Mr. MAULL. Could not get anything in writing from them of any kind.

Senator THURMOND. Have you found out anything about these people since that time?

Mr. MAULL. I have not, but the FBI came in and wanted to look the files over.

They sat down and said, "We want to ask you certain questions."

Senator THURMOND. What?

Mr. MAULL. The FBI said they wanted to ask certain questions about this contract, so I sat down at the table and said, "You gentlemen sit down and write out the questions you want to ask me, and I will answer any questions you have when you get through."

When they were through, they said the file was so complete there were no questions to ask. So the FBI made an investigation of some kind.

Senator THURMOND. When was that?

Mr. MAULL. I would say about 5 years ago, as well as I can recall.

Senator THURMOND. More than 7 years after these negotiations?

Mr. MAULL. No; about 3 years last August I am out. It must have been 6 or 7 years ago.

Senator THURMOND. This was in 1951, I believe, that you were dealing——

Mr. MAULL. That is right, 1951. We canceled the contract in 1953.

Senator THURMOND. What is that?

Mr. MAULL. We canceled the contract in 1953.

Senator THURMOND. Canceled it in 1953?

Mr. MAULL. That is right.

Senator THURMOND. Then this was 3 or 4 years after that?

Mr. MAULL. That is right.

Senator THURMOND. Thank you, Mr. Chairman.

Senator SYMINGTON. Senator Cannon?

Senator CANNON. No questions.

Senator SYMINGTON. One question: We were trying to get the platinum and you had it arranged so that no money passed——

Mr. MAULL. That is right.

Senator SYMINGTON (continuing). Unless you got the platinum?

Mr. MAULL. That is right.

Senator SYMINGTON. You must have been operating with increasing suspicion of the capability of these people?

Mr. MAULL. That is right.

Senator SYMINGTON. Was there not some liaison with some other department of the Government so that, at a particular time, you could turn to that other agency of the Government, some place where you could have these people checked, instead of going through all this monkey business counsel has put in the record?

Mr. MAULL. I suppose so. We did not do it.

Senator SYMINGTON. Was there no liaison?

Mr. MAULL. No one but the FBI.

Senator SYMINGTON. And did Mr. Snyder know anything about these people? Did you ever discuss this again?

Mr. MAULL. No.

Senator SYMINGTON. With Mr. Snyder?

Mr. MAULL. It was in these memoranda here.

Senator SYMINGTON. Everything that you know?

Mr. MAULL. All about it.

Senator SYMINGTON. Is in the memoranda?

Mr. MAULL. Yes, sir.

Mr. COBURN. Captain Maull, I want to ask you just this one thing to make sure I understood you correctly.

Did I understand you to say that in connection with the purchase of manganese, the first purchase of manganese made for the stockpile, that you purchased manganese from an American concern that was representing the Russian Government?

Mr. MAULL. Leonard J. Buck.

Mr. COBURN. Give me that name again.

Mr. MAULL. Leonard, L-e-o-n-a-r-d, J. Buck, B-u-c-k.

Mr. COBURN. Where are they located?

Mr. MAULL. New York City.

Mr. COBURN. What business are they in?

Mr. MAULL. They are brokers.

Mr. COBURN. Commodity brokers?

Mr. MAULL. Commodity brokers; yes.

Mr. COBURN. And you purchased some Russian manganese from them?

Mr. MAULL. Yes.

Mr. COBURN. How much?

Mr. MAULL. 150,000 tons.

Mr. COBURN. 150,000 tons?

Mr. MAULL. Yes.

Mr. COBURN. When was that?

Mr. MAULL. About 1946–47, something like that. I have a good memory, but not quite that good.

Mr. COBURN. At the time the purchase was made, were you well aware of the fact that this was being purchased from Russia?

Mr. MAULL. Oh, sure. They told me who it was from.

Mr. COBURN. What is that?

Mr. MAULL. They had to tell me in the invitation. I asked the country and they said Russia.

Mr. COBURN. Leonard J. Buck did?

Mr. MAULL. That is right. All of them did.

Mr. COBURN. I have no further questions.

Senator SYMINGTON. Who is Mr. Johnston Russell?

Mr. MAULL. He is the present Comptroller of the General Services Administration, Comptroller of the General Services Administration.

Senator SYMINGTON. Of the General Services Administration?

Mr. MAULL. That is right.

Senator SYMINGTON. You have a memorandum of July 28, in which you state that you had a call from Mr. Snyder, stating that "Mr. Knohl telephoned him"——

Mr. MAULL. That is right.

Senator SYMINGTON (continuing):

At his home, and stated that two Russians agents, Mr. Klausman and Mr. Angling, had been talking to him, and claimed Mr. Johnston Russell had the platinum purchase bogged down.

Would you not normally look into these people—Mr. Klausman and Mr. Angling—if you had a memorandum of that character?

Mr. MAULL. No, sir.

Senator SYMINGTON. Was there no way to check?

Mr. MAULL. No way I could check.

Senator SYMINGTON. To check the validity of an offer?

Mr. MAULL. No way I could check.

Senator SYMINGTON. Made to the GSA?

Mr. MAULL. No way I could check.

Senator SYMINGTON. On the people in question?

Mr. MAULL. No.

Mr. COBURN. May I suggest, Mr. Chairman, that that memorandum, I think, should be offered for the record. I intended to do it and evidently overlooked it.

Senator SYMINGTON. Without objection.

Mr. COBURN. A memorandum dated July 28, 1951, made by the witness, H. C. Maull, Jr.

Mr. MAULL. That is right.

(The memorandum is as follows:)

JULY 28, 1951.

To: The file.
From: H. C. Maull, Jr.
Subject: Platinum.

I received a telephone call from Mr. A. E. Snyder, Office of the Administrator, at 9:45 a.m., this morning, stating that Mr. Knohl telephoned him at 7 o'clock this morning, at his home, and stated that two Russian agents, Mr. Klausman and Mr. Angling, had been talking to him and claimed Mr. Johnston Russell had the platinum purchase bogged down. I informed Mr. Snyder that I know of no action taken by Mr. Johnston Russell that would cause any delay and called his attention to the fact that Mr. Russell reports to Mr. Max Medley, Office of the Comptroller, General Services Administration, not me.

Mr. Snyder stated that he had informed Mr. Knohl that the Government has done everything requested, but his principals have not even signed and returned the contract.

Mr. COBURN. I have no further questions of this witness. I would like to call Admiral Small back for another question or two, if I might, before we close.

Senator SYMINGTON. Thank you, Captain.

Mr. MAULL. You are quite welcome, Senator.

Senator SYMINGTON. Admiral, will you come back? Will you consider yourself sworn?

TESTIMONY OF ADM. JOHN D. SMALL (RETIRED), FORMER CHAIRMAN OF THE MUNITIONS BOARD—Resumed

Mr. SMALL. Yes, sir.

Mr. COBURN. Admiral, there is something I would like to ask you, in addition, that was brought out when you were here before.

The Defense Production Act was intended to permit the Government to make purchases for the purpose of stimulating or increasing the production of strategic materials, was it not?

Mr. SMALL. Among other things, yes. That was one of the reasons.

Mr. COBURN. That was one of the reasons?

Mr. SMALL. Yes.

Mr. COBURN. We have heard here that these people in GSA were authorized to buy these 500,000 ounces of platinum, not only for the stockpile, but for the Defense Production Act inventory also.

Part of it was to go into the Defense Production Act inventory when at least Captain Maull says that it was pretty well recognized that this material was being purchased from a foreign power, probably Russia.

Would a purchase of that kind be within the intention and purposes of the Defense Production Act, as you understood it?

Mr. SMALL. It would, yes.

Mr. COBURN. In what respect, Admiral?

Mr. SMALL. Well, let us assume, as was the fact about that time, the Navy had to get the President's authorization to release a small lot of platinum for their purposes.

Mr. COBURN. I understand that.

Mr. SMALL. Platinum was extremely scarce. It was not available on the open market. The GSA had an open ceiling there to buy material for the stockpile, platinum for the stockpile, but could not buy it. It was not available.

Now, the platinum was needed in the civilian economy for a variety of things, not only the Navy's spinnerets, if you like, but as a catalyst for various chemical processes.

It was needed in the civilian economy.

The mere fact that it took a Presidential authorization to release this small quantity showed you how difficult it is to work with anything that is in the stockpile.

You do not get it out of the stockpile except in the case of an emergency, a very real emergency. It is impossible to get it out.

Mr. COBURN. Go ahead, I am listening. Evidently I did not make myself clear. I am not interested in the 35,000 ounces that the Navy had borrowed from the stockpile and which you were trying to put back.

What I am interested in is the fact that in this purchase of 500,000 ounces, there was the figure of 119,000 ounces, as I understand it, that was to go to the stockpile—I mean to the Defense Production Act inventory.

Mr. SMALL. For resale.

They evidently, DPA evidently at that time had need in the civilian economy for that amount of material which they would buy and resell to the industry.

Mr. COBURN. You were Chairman of the Munitions Board in those days and must have had a great deal to do with the operations of the Defense Production Act.

Was it not your understanding that it was the purpose of the Defense Production Act to permit purchases for the purpose of increasing the production of strategic materials?

Mr. SMALL. Among other things; yes.

Mr. COBURN. What other purposes were there?

Mr. SMALL. If industry was badly in need of a catalyst, let us say, as platinum is, if they were badly in need of it, could not buy it, and it was very difficult to get authority to release it from the national stockpile, it certainly was to the benefit of the country if the Defense Production Administration could procure some and resell it.

Senator SYMINGTON. Will you yield?

Mr. COBURN. Yes, sir.

Senator SYMINGTON. From a business standpoint, why, if industry needed it, was it necessary for the Government to buy for resale? Why could not industry buy it?

Mr. SMALL. Well, there could be, of course, Senator, a variety of reasons, but I would assume that the reason was that if something was available in a lump, industry itself would not be able to buy it because it would be individual companies in industry that needed the platinum as a catalyst, let us say, but not the whole quantity that was here involved.

Senator SYMINGTON. Some of the ablest witnesses we have had before this subcommittee have been brokers in these various metals, some brokers in platinum.

I cannot quite understand why it was necessary for the Government to buy platinum because platinum was needed by industry. If the industry needed it, they knew where they could go to obtain platinum.

Mr. SMALL. I can only tell you, I can only repeat to you what you have heard here this morning.

The General Services Administration, as the buying agent, the purchasing agent, not only for the stockpile, but also for DPA, had no platinum under contract, knew of no place where they could go and get it. There was not any available for purchase at that particular point in time.

Senator SYMINGTON. I see.

So that then the 119,000 that was desired by DPA for private industry could only be obtained if this deal with these Russians went through.

Otherwise, there would not be any platinum on any basis of any kind for industry?

Mr. SMALL. Not at that moment.

Senator SYMINGTON. Not at that moment?

Mr. SMALL. There might be later.

Senator SYMINGTON. How long did that moment last?

Mr. SMALL. That, I honestly have no idea, but I would assume that it lasted quite a while, until there was a change made, as you heard

testimony here by Mr. Lawrence, who testified this morning, until they changed and put in palladium as an alternate.

That would unfreeze or loosen up the market, let us say, of platinum.

Senator SYMINGTON. Palladium is really a platinum derivative, is it not?

Mr. SMALL. It is one of the platinum metals; yes.

Senator SYMINGTON. Why would there be plenty of palladium but no platinum?

Mr. SMALL. I conjecture from what Mr. Lawrence said this morning, and I have a vague recollection of it, that palladium was available in the open market, whereas platinum was not, but they did not know at that time they could use palladium as an alternate.

It was only later that they found out they could.

Senator SYMINGTON. Thank you. That is interesting.

Mr. COBURN. Admiral, I am not sure that we quite finished what I had in mind here.

I am not questioning, now, whether it was good for industry or good for the country to buy this platinum, but what I am getting at is your understanding of the purposes of the Defense Production Act.

Do you understand it that the Defense Production Act permitted the Government to buy material merely for the purpose of turning around and selling it to industry, if industry needed that material?

Mr. SMALL. Yes.

And I am not a lawyer, but my understanding is that the Defense Production Administration could take action such as that if it was for the good of the economy of the country, and if industry itself, on its own, could not achieve its purposes.

Mr. COBURN. In other words, it is your understanding then that the purpose of the Defense Production Act was not limited to stimulating and increasing the production of strategic materials by buying, but it also gave the Government power to buy material for the purpose of turning around and selling it immediately to industry?

Mr. SMALL. That is my recollection; yes.

Mr. COBURN. And that was the justification for the authorization here to buy 119,000 ounces of this platinum for the Defense Production Act inventory?

Mr. SMALL. Yes. The 119,000 included. I surmise from these papers, included the Navy's 35,000, and the balance of it was not very much.

Mr. COBURN. Yes; I understand that.

Senator SYMINGTON. Senator Thurmond?

Senator Cannon?

Thank you, Admiral Small. It was pleasant to see you.

Mr. COBURN. Those are all the witnesses today, Mr. Chairman.

Senator SYMINGTON. The hearing will adjourn subject to the call of the Chair.

(Whereupon, at 11:50 a.m., the hearing was adjourned, subject to the call of the Chair.)

STOCKPILE INVESTIGATION

TUESDAY, JULY 31, 1962

U.S. SENATE,
SUBCOMMITTEE OF THE NATIONAL STOCKPILE
AND NAVAL PETROLEUM RESERVES OF THE
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee (composed of Senators Symington (chairman), Thurmond, Engle, Cannon, Beall, and Bush) met, pursuant to notice, in room 235, Old Senate Office Building, at 9 a.m.

Present: Senators Symington (presiding), Thurmond, Engle, Beall, and Bush.

Also present: Richmond C. Coburn, chief counsel to the subcommittee; T. J. May, assistant counsel; J. H. Zimmer, assistant counsel; Edward O. McCue, III, assistant counsel; and James J. Gehrig, special assistant to Senator Symington.

Senator SYMINGTON. The subcommittee will come to order.

I want to thank the other members of the committee and witnesses for being here a little early today.

As you know, we have a situation on the floor of the Senate which makes it difficult, in fact, impossible, to meet after 10 o'clock.

I have a short statement I would read.

On June 26, the New York Times published an editorial, already made part of this record, which said, in part, that this subcommittee in investigating the Government stockpile program—

> has uncovered a dismaying example of misuse of military secrecy to conceal policies expensive to the taxpayers and alien to any proper consideration of national defense.

This was denied in a letter to the editor of the Times written on June 27; published on July 10; signed by Dr. Joseph Zimmerman.

On July 11, the chief counsel of this committee replied to the letter from Dr. Zimmerman; and this reply was published in the Times on July 19.

Part of counsel's letter states:

> In summary, the lead and zinc stockpile purchase program in 1954 was carried out by creating stockpile objectives which were not related to our military needs. Purchases were made against these objectives to raise the market prices in a depressed industry. Because the details of the national stockpile carried the high security classification of "secret"—the public and the Congress were not "fully informed" that the stockpile was being used for purposes for which it was not intended.

I ask unanimous consent that Dr. Zimmerman's and counsel's letters be inserted at this point in the record.

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(The letters referred to follow:)

[Text of letter published in the New York Times, July 10, 1962]

STOCKPILING SECRECY DENIED—ORDER TO PURCHASE LEAD AND ZINC DECLARED GIVEN WIDE PUBLICITY

To the Editor of the New York Times:

Your June 26 editorial states that the Senate subcommittee in its investigation of the Government's stockpiling program "has uncovered a dismaying example of misuse of military secrecy to conceal policies expensive to the taxpayers and alien to any proper consideration of national defense."

I am certain that your newspaper files will bear me out that there was no "secrecy" or concealment, military or otherwise. The facts are these:

On August 23, 1954, James C. Hagerty, press secretary to President Eisenhower, issued a news release to the daily and trade press stating that the President had "outlined an expanded stockpiling program for strengthening the lead and zinc industry, as an integral part of the Nation's defense mobilization base. The President took this action in lieu of accepting the recommendations of the U.S. Tariff Commission for an increase in the duty on imports of these two metals."

EISENHOWER DIRECTIVE

Included in Mr. Hagerty's press release was a copy of the letter that President Eisenhower had written to Chairman Millikin of the Senate Finance Committee and to Chairman Reed of the House Ways and Means Committee in which he stated that he had directed the Office of Defense Mobilization to purchase 200,000 tons of newly mined domestic lead and 300,000 tons of newly mined domestic zinc at market prices for the long-term stockpile program in order to strengthen and protect the domestic mobilization base for these metals.

The above release was given wide publicity in the daily and trade press, so that the public and Congress were fully informed. Consequently, it is erroneous for your editorial to state that "the effect of these policies—instituted without knowledge of Congress or the public—was to turn the strategic stockpile of lead and zinc into a mechanism for price supports."

Whether the Government's policy was right or wrong is a moot question and it would take up too much of your valuable space to argue it.

The primary purpose of this letter is to set the record straight. Thus far Senator Symington's committee has not "uncovered" any startling facts. The committee simply has been reviewing facts that are already well known.

JOSEPH ZIMMERMAN.

NEW YORK, *June 27, 1962.*

[Text of letter published in the New York Times, July 19, 1962]

USE OF STOCKPILES—MANIPULATION OF BUYING GOALS FOR LEAD AND ZINC CITED

To the editor of the New York Times:

In your July 10 issue a letter from Joseph Zimmerman about excessive lead and zinc stockpile purchases during the previous administration asserted: "There was no 'secrecy' or concealment, military or otherwise," and "* * * the public and Congress were fully informed."

In an effort to substantiate these statements the author refers to a White House press release which included a letter from President Eisenhower to the chairmen of the Senate Finance Committee and the House Ways and Means Committee, in which the President stated he was directing the purchase of 200,000 tons of lead and 300,000 tons of zinc at market prices in order to strengthen and protect the domestic mobilization base for these metals.

Such a public statement was made at the time, but this did not disclose to the public that the announced purchases were in excess of stockpile needs—this, because our objective or buying goals, how such objectives were set, and the amount of lead and zinc already in the stockpile were classified as "secret."

"SECRET" CLASSIFICATION

When the lead and zinc purchase program began in 1954 the lead and zinc on hand equaled the stockpile objectives. In order to make additional purchases possible the national stockpile objectives had to be increased. This was

done, even though there was no military need for the metals; and despite requests from Members of Congress to declassify these stockpile objectives and inventories, their security classification was continued under the high classification of "secret."

Until the recent declassification of the stockpile, therefore, the Congress did not know how these stockpile objectives for lead and zinc were set or that they had been created to justify this buying program.

Sworn testimony before the subcommittee has been that repeatedly stockpile objectives for lead and zinc were manipulated in order to permit additional purchases, which in turn supported the market. Thus was the Strategic and Critical Materials Stock Piling Act of 1946 used for purposes for which it was not intended.

In summary, the lead and zinc stockpile purchase program in 1954 was carried out by creating stockpile objectives which were not related to our military needs. Purchases were made against these objectives to raise the market prices in a depressed industry. Because the details of the national stockpile carried the high security classification of "secret"—the public and the Congress were not "fully informed" that the stockpile was being used for purposes for which it was not intended.

RICHMOND C. COBURN,
Chief Counsel, Subcommittee on the National Stockpile and Naval Petroleum Reserves.

WASHINGTON, *July 11, 1962.*

Senator SYMINGTON. An interesting letter has been turned up with respect to this problem. I ask unanimous consent that this letter be inserted at this point in the record. On December 13, 1956, at a time Dr. Zimmerman was editor of the Daily Metal Reporter, Assistant Secretary Felix E. Wormser of the Department of Interior wrote him as follows:

DECEMBER 13, 1956.

Dr. JOSEPH ZIMMERMAN,
New York, N.Y.

DEAR JOE: I think your item on lead and zinc stockpiling was well done and that you can go even further than you did in indicating that domestic lead and zinc purchases will continue into 1957.

Unless there is some unforeseen situation which will require the Government, in the interest of stability, to purchase extraordinarily large amounts of either of these metals, I think our stockpiling program can go along for many months to come. And, of course, there is the barter program which I don't think will be impaired by the next Congress.

Sincerely yours,

FELIX E. WORMSER, *Assistant Secretary.*

Mr. Secretary, we welcome you here today.

We know that you are one of the foremost authorities on this complicated tin problem, and we appreciate your taking time from your busy work in Geneva and here in Washington to come here and help us as we attempt to unfold the details in this particular industry.

It is the custom of all witnesses before this committee to be sworn.

Do you swear that the testimony you give this subcommittee will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. WEAVER. I do.

Senator SYMINGTON. Mr. Counsel?

Mr. COBURN. Mr. Chairman, before examining the witness, I think it might be helpful to the committee and those present to say that today we begin a study of the purchases of tin metal for the stockpile, and I call the committee's attention to the fact that at the present time our total quantity in the stockpile in all of the Government inventories is 349,000 tons, of which 8,000 tons is in the supplemental stockpile, and all of the rest, namely, 341,000 tons, is in the national stockpile.

We have none in the defense production inventory at the present time.

Our current maximum objective in tin is 185,000 tons.

Mr. Witness, will you kindly state your name and address?

TESTIMONY OF GEORGE L-P WEAVER, ASSISTANT SECRETARY OF LABOR FOR INTERNATIONAL AFFAIRS

Mr. WEAVER. My name, sir, is George Weaver. My address is 3819 26th Street NE., Washington, D.C.

Mr. COBURN. And at the present time are you connected with the Government?

Mr. WEAVER. Yes, sir. I am Assistant Secretary of Labor for International Affairs.

Mr. COBURN. At an earlier time in, say, 1951, were you connected with the Government?

Mr. WEAVER. Yes, sir. In 1951, I was assistant to the Administrator of the Reconstruction Finance Corporation under the present distinguished chairman.

Mr. COBURN. Thank you very much.

Now, Mr. Weaver, as I understand it, you have prepared a statement here on the history of some of our principal tin purchases at my request, and if you would like to read that statement, we will be glad to hear from you.

Mr. WEAVER. Thank you, sir.

Mr. Chairman and members of the committee, I very much appreciate the opportunity to appear before this committee on the very important subject of our tin stockpile.

President Kennedy, at his press conference of January 31, 1962, expressed his concern regarding the large surpluses of strategic commodities held by the Government as a result of its stockpiling program. He noted that the investment in excessive commodities involves a questionable burden on public funds and a potential source of undue profit. He said that the executive branch of the Government would cooperate fully in the complete investigation of the program which the Stockpiling Subcommittee of the Senate Armed Services Committee was to conduct.

The President noted that $3.4 billion of the materials held in the stockpiles of $7.7 billion were surplus to our estimated requirements, but he also stated that he was well aware of the potential impact of the U.S. stockpiling policy on world trade in minerals, and of the heavy reliance of certain countries on one or more of the minerals in our stockpile. He, therefore, gave assurance that the United States would take no action which would disrupt commodity prices.

Among the strategic commodities that we have accumulated is tin. Tin is a strategic metal for which the United States has a vital need. It is essential for the transportation industry, aircraft, ships, submarines, and tanks; machine tools, automotive equipment, electric motors and generators; telephone, telegraph, radio and radar equipment, as well as the preservation of a substantial portion of our food. It is one of the essential metals for keeping the wheels of industry turning. While during World War II the pressures of necessity forced us to decrease the amount of tin that we used, no complete sub-

stitute was developed for this metal. For many years the United States has been the world's largest consumer of tin. We are a have-not nation with respect to tin mineral resources. Decades of exploration have failed to reveal tin deposits within the United States adequate to supply even a few days of our annual demand.

This dependence of the United States on imports for supplies of tin is an especially important consideration when determining a stockpile policy. In times of scarcity, and I understand that the outlook for the next decade is considered by the best experts on this subject to be a continued tendency to scarcity, the stockpile can be a great influence against runaway prices. Even at the present time, the existence of the U.S. stockpile is judged to be an important restraining influence on price.

Another principal factor for consideration is the countries upon which we must depend for tin supplies and which, on their side, are dependent on tin exports. The principal tin ore deposits are located in—

1. A tin-bearing belt extending from lower Burma and western Thailand through Malaya to the three principal tin islands of Indonesia;
2. Central Africa, principally Nigeria and the Congo;
3. Bolivia.

There are other countries of the free world where lesser tin deposits are found. These include Australia, England, Portugal, Spain, and Brazil. Prior to the Communist takeover of China, that country was a very substantial supplier of tin to world markets. The ore reserves prior to the takeover were large and doubtless have been increased since then. Since World War II Russia has also become a factor in tin production and sales.

Over 60 percent of the world's tin originates from ores found in southeast Asia. In 1960 Malaya, producing 52,000 long tons, held first place in production, as it had in many years prior to and after World War II. Indonesia followed with a production of 22,599 tons; Bolivia was next with 19,407 tons; the Federation of Nigeria, 7,675 tons; and Ruanda-Urundi, central Africa, 1,200 tons.

The investigation of the Stockpiling Subcommittee of the Senate Armed Services Committee in regard to tin is of considerable concern to the principal producing areas. Once before, Mr. Chairman, the acquisition of tin for domestic consumption as well as stockpiling purposes was the subject of an exhaustive inquiry by the Preparedness Investigating Subcommittee of the Committee on Armed Forces of the U.S. Senate in 1951.

This latter committee found that for the previous 30 years the tin producing industry had attempted, by joint efforts, to maintain and increase the price of tin through agreements to reduce the available supply. They found that the tin-mining industry was concentrated in a relatively few economically underdeveloped areas of the world and that control of the production and sale of this metal had gravitated into the hands of a relatively few large corporations. They also found that this control was maintained principally through the ownership of the tin smelting industry which appeared to be closely tied to the largest producers through the various holding companies which the committee traced in detail. In addition, the committee

found that the number of units was much fewer in the tin smelting field than in the production and concentration of tin ores. As a result, there was relatively close integration of the ownership of the tin smelting industry.

The committee also discovered that the British and Dutch corporations together controlled the "lion's share" of the world's smelting capacity (as well as tin mining), with British corporations predominating. This control was tightened by the ties between the smelting companies and the producing companies. Tin concentrates generally followed corporate and nationalistic ties. There was little competition among smelters.

The committee found that there was a long history of intercorporate as well as intergovernmental attempts by the tin producing corporations and countries to control production in order to—

secure a fair and reasonable equilibrium between production and consumption with the view of preventing rapid and severe oscillation of price.

These production restrictions, starting in 1921, were imposed at frequent intervals up to September 1960.

The average yearly prices of tin at New York from 1915 until 1950 varied between 32 cents and $1 per pound with a high of $1.10 for a short time during 1918. During World War II the OPA ceiling price for tin sold in the United States was 52 cents per pound. The Reconstruction Finance Corporation toward the end of the war paid the Bolivians a price for concentrates computed from a base price of 67 cents per pound for tin metal. When OPA price ceilings were lifted in November of 1946, tin sold at 70 cents a pound. Even later during the period of the postwar shortages, when industrial demand increased and the mines had not yet been rehabilitated, the average price fixed by the British Ministry of Supply and the Reconstruction Finance Corporation did not exceed the $1.03 a pound at its peak.

After the free markets for tin opened in November 1949 and the British Ministry of Supply and the RFC were no longer the sole buyers for their countries, decreased consumption and decreased stockpile purchases caused the New York market price for tin to slide down to about 79 cents per pound.

This was altered, however, Mr. Chairman, when hostilities broke out in Korea and consumers bought to be prepared for possible wartime shortage. In 1951, the Preparedness Investigating Subcommittee's attention was directed to this metal as a result of the rapid increase in price. The war had an immediate and drastic effect upon tin prices. They went from 77.5 cents a pound at the outbreak of the Korean War to almost $2 a pound by the following February. This was an increase of more than 150 percent and forced the United States to choose between discontinuing its stockpile purchases or paying an exorbitant price for tin.

As a result of the predicament growing out of the rapid increase in tin prices, the committee recommended that an international conference be held of representatives of the tin producing and consuming countries to—

1. Stimulate increased production,
2. Allocate tin supplies, and
3. Reduce the price.

It was soon realized, however, that this was not enough. In the absence of cooperation from the tin producting countries, the committee called for the United States to take unilateral and drastic action to protect itself from the sranglehold of the international tin combine. It urged that stockpile purchases be suspended and that prices return to a fair and reasonable level and that tin purchases be centralized in one agency.

On March 7, 1951, 2 days after the report appeared in the public press, the GSA suspended all new purchases of tin for the stockpile. It announced that Government purchases for industrial output would be held to a minimum. On March 12 the National Production Authority designated the RFC as the exclusive importer of all tin to the United States except for that covered by the then existing private contracts.

This was followed by a series of acts demonstrating that the U.S. Government intended to protect itself in every way possible. The committee's recommendations became national policy and the reaction was immediate. Tin prices pursued a steady decline from an all-time high of $2.01 on the London market and $1.93 on the Singapore market, on February 14, 1951, to $1 on the London market and 99 cents on the Singapore market by August 3, 1951.

During this period charges and countercharges between the tin producing countries and officials responsible for carrying out U.S. policy were exchanged. An attempt was made to imply that there was division within the executive branch of the U.S. Government. This was quickly demonstrated to be unfounded.

At the same time, Bolivian producers opened negotiations with the Reconstruction Finance Corporation. A mission was sent to Bolivia to gather the facts on production and the Bolivian nation's economy. Production costs were found to be higher in Bolivia than in other tin producing areas. The mission was furnished cost, tax, and foreign exchange data to determine a fair and reasonable price. The conclusions reached by it were extremely interesting and highlighted the difficulties of the negotiations.

Senator SYMINGTON. You actually led that mission, did you not?

Mr. WEAVER. Yes, sir.

Senator SYMINGTON. Proceed.

Mr. WEAVER. On the basis of the studies it was concluded that—

1. The Bolivian Government at that time was unwilling to determine the appropriate price for tin on the basis of production costs but rather upon the basis of how much money was wanted to run the Bolivian Government plus the profit desires of the producers;

2. Ninety percent of the Bolivian revenues were obtained through the taxes on the sale of metals, mostly tin;

3. Upon the basis of the Bolivians' own figures, the average cost of producing tin (excepting export taxes) had risen only 28 percent since Korea; and

4. The export tax factor had been arbitrarily increased 100 percent even though production costs had increased only 28 percent.

On the basis of this study, the Reconstruction Finance Corporation decided that a fair price for Bolivian tin was $1.12 per pound.

This was arrived at by increasing the pre-Korean costs by 28 percent and ignoring the arbitrary 100 percent increase in the export tax fee. Fifty percent of the $1.12 price represented taxes and profit.

The report of the mission reveals that it was necessary to combine taxes and profits in the computation of a fair price because of a complicated Bolivian system which resulted in a split between the Government and the various producers. The mission was advised that under this system it was possible for a product whose total costs and expenses were higher than the market price to obtain a greater profit than a low cost producer. This was because the Government of that day provided varying rates of foreign exchange to distribute dollars and bolivianos to the tin producers. Finally in August 1951 a temporary agreement was entered into with the Bolivian Government to purchase those tin concentrates already at a port in Chile awaiting shipment, for $1.12 per pound.

An official mission was also sent to the Far East at the invitation of the Government of the Federation of Malaya and the Governments of the United Kingdom, Indonesia, and Thailand.

Senator SYMINGTON. You also led that mission, did you not?

Mr. WEAVER. Yes, sir. I was the senior negotiator for the RFC on that mission.

However, it was not possible to reach an agreement with these producers.

The deadlock between the United States and the world's tin producers was finally broken on January 18, 1952. On that date the President of the United States and the Prime Minister of Great Britain entered into an agreement under which the United States would furnish steel to the British and the British would furnish us aluminum and 20,000 long tons of tin. The price of the tin was set at $1.18 per pound, f.o.b. port of shipment. This price resulted in $1.21½ per pound laid down at New York, because we bore the shipping and insurance costs.

The lesson that the Senate subcommittee drew from this period of the history of the tin negotiations can be stated simply:

In spite of the demand for increased tin supplies to prepare for the eventualities of the Korean war situation, the major tin producers would not incur the risk of getting production out of balance with actual current consumption, for fear prices would fall in the future when stocks were decreased.

It is of interest, in connection with the history that I have discussed, to notice that it has not been, for the most part, the cost of efficient suppliers which has dictated the price of tin. The major price fluctuations have been in response to changes in the demand.

Data on the costs of production of tin are not readily available as in other metals. Precise data on this subject are almost impossible to obtain. I am advised the consensus of commodity specialists throughout the country is that information on input costs of virtually every other metal is published, but that tin companies do not make such information available. Consequently, it is not possible to measure their profits and expenses with the degree of certainty and accuracy of some other metals.

The only annual reports that would be helpful in this regard are the reports of the 200 or so British tin producing firms who publish

annual reports which contain some cost data. Reports from Bolivia and Indonesia would be less helpful.

It is well to remember in this regard that Bolivia is the highest cost producer in the world. The tin is mined at altitudes of 12,000 feet or more and must be shipped to port in a foreign country which takes a cut of the price. The veins are deep and thin. Productivity of the workers is low due to poor diet, their working at high altitudes and their lack of training in modern mining methods. Since the revolution in 1952, the social costs are relatively high. In addition, it is estimated that the work force in the mines is smaller than it should be, while the work force at the surface and in the offices is roughly twice as large as it should be. Industry is using antiquated machinery, and the management is relatively inefficient and for the last several years the industry has ended up in the red.

It is hoped that the new triangular plan, whereby United States, German, and International Development Bank technical know-how and financial assistance is being provided, will get the industry on its feet and in a profitable position.

A number of steps have already been taken with moderate success. It is estimated by some of our AID people that, without a setback, the deficit position may be ended this year. The Government is proceeding to reduce the staff in the mines and to strike a better balance between production and white-collar workers. It is hoped that the operations of the Banco Minero will be stepped up in order to encourage production in the small mines which can most easily absorb the miners who are being eliminated from the larger mines.

Our best estimates of the present production costs are at least $1.50 per pound of tin in concentrates produced and may well be higher.

Indonesia should be a low-cost producer because of the accessibility of the ore and its high grade; however, it is estimated that over the past several years the costs of production in Indonesia have increased substantially. It is estimated that the costs per pound are in the neighborhood of 90 cents and up to $1 and $1.20 in the least efficient mines.

Malaya produces a very high grade tin (straits tin). Production is efficient and costs are relatively low. Most of the companies producing straits tin are British. The tin from Malaya is imported in the form of pig. Malaya is our chief supplier and it is estimated that in the most efficient mines production costs are in the neighborhood of 50 to 60 cents per pound, and in less efficient mines as high as 90 cents per pound. The more efficient mines utilize dredges which account for approximately 50 percent of the Malayan production. The less efficient mines which utilize the gravel pump method account for about 40 percent of production. The remaining 10 percent of production is from open cast mines and less efficient methods. Tin is highly taxed in Malaya. The export duty on tin concentrates is about one-sixth of the tin price plus taxes which make a total of about 50 percent.

To go back to the question of stockpile amounts, the U.S. Government has acquired a grand total of 349,000 long tons for the stockpile at a total cost of $748,345,080 since 1949. This figures out to an average of 1.08½ cents per pound. The price per pound during

the period of acquisition of the stockpile has varied considerably (from about 74 cents to about $1.62) depending on demand conditions at the time of acquisition. A breakdown of the figures for our acquisition since the Truman-Churchill agreement in 1952 are as follows:

In the contract entered into in 1952——

Senator SYMINGTON. Mr. Secretary, considering the shortness of time incident to the current Senate situation, I suggest you supply these figures for the record. If any of the members of the committee or counsel want to question against them, fine; then you go ahead and finish your statement, if that is agreeable.

Mr. COBURN. Mr. Chairman, may I suggest this as a timesaver? We will simply incorporate this table in the record.

Senator SYMINGTON. Yes.

If there is anything members of the committee would like to ask against the table now, that would be all right.

(The table referred to follows:)

Contracts

	Unit	1952—		1954 domestic, Texas City	1955 domestic, Texas City	1956 domestic, Texas City
		Domestic, Texas City	Foreign, Texas City			
Quantity	Long tons	14,000	82,213	76,613	12,222	5,240
Price:						
Actual	Dollars	1.2225	1.2146	1.0144	1.0214	1.0487
Low for year	do	.7825	.7825	.8425	.8575	.92875
High for year	do	1.2150	1.2150	1.0100	1.1000	1.1375
Average for year	do	1.2043	1.2043	.9198	.9473	1.0126
Cost:						
Actual	Millions of dollars.	38	224	174	28	12
Low for year	do	25	144	145	23	11
High for year	do	38	224	173	30	13
Average for year	do	38	222	158	26	12

Mr. WEAVER. Thank you, sir.

In considering the implications of this review for present and future policy, it is to be noted that there have been important changes in recent years in the situation as regards tin producing and smelting. One significant change is that the producers now represent newly independent countries. A second change to be noted is that there is an established intergovernmental group, in which both producers and consumers are represented, to consider the various points of view and factors bearing on the tin situation at a given time and to try to prevent both production control from raising prices to unduly high levels and disposal actions from depressing them disastrously. These changes and their policy implications as well as the policy implications of the history that I have gone over, will, I hope, be explored by the representatives of the State Department and GSA which are, of course, the responsible agencies in this area.

Senator SYMINGTON. Thank you, Mr. Secretary.

I have one comment and a question.

You say:

One significant change is that the producers now represent newly independent countries.

If the purchase of tin is to be utilized for diplomatic reasons—supporting countries or any other reason—that should be public knowledge.

It should be clear, more clear than in the past. It is in contravention of the law if used for some other purpose than defense mobilization requirements. That fact should be made known, the statute should be written accordingly, and the regulations should be cleared to that end.

In this connection, as I remember, the Senate Military Preparedness Subcommittee report, supplementary report, chaired by the now Vice President Lyndon Johnson, came out in July 1952, is that correct?

Mr. WEAVER. That is correct, sir.

Senator SYMINGTON. And within less than 30 days after the report came out, this Government bought nearly a quarter of a billion dollars, $243 million, as I remember it, at the price which was considered in the Senate report too high a price. As you pointed out, the agreed price was $1.12, and the decided-upon price after discussion with the British Government was $1.21½, New York.

Have you any explanation for that?

Mr. WEAVER. Sir, first, I would like to comment, as a member of the Executive branch of the Government, I wholeheartedly agree with the first portion of your statement: That the acquisition of any commodity should be based upon the need of the commodity.

The second point of your query, sir, as I indicated in the statement, after examining all the factors, and particularly from the highest cost producer in the world, the Bolivian mines, we have come to the conclusion that $1.12 was a fair price, which was subsequently confirmed by the Bolivian Government, taking the form of the agreement that we negotiated.

Some months after, as a result of the negotiations between the Prime Minister of Great Britain and the President of the United States, the agreement was entered into at a price of $1.18.

Senator SYMINGTON. Singapore.

Mr. WEAVER. $1.18, Singapore, which was 3½ cents more, laid down at New York City.

However, that was a combination agreement, we secured steel and aluminum—we secured aluminum and tin and the British secured steel, and, other than this factor, we in Government at the time were critical of the extra 6 cents, but subsequent facts indicated that the other consideration involved was the conditions in Malaya at the time.

Guerrilla warfare was going on which impressed the President of the United States and those who were negotiating considerably, and this price of $1.18, Singapore, which resulted in $1.21½ to us laid down in New York, then became the norm, so to speak, in future purchases of the U.S. Government for the stockpile.

Senator SYMINGTON. One other question:

In 1954, after this heavy procurement of tin, although it should be noted that the price was reduced considerably—I think to around 93 cents—the Government for the stockpile bought another $174 million of tin; is that not correct?

Mr. WEAVER. That is correct, sir.

Senator SYMINGTON. Senator Beall?

Senator BEALL. Thank you, Mr. Chairman.

Mr. Weaver, I certainly was very much interested in that very splendid statement which you made. It was most enlightening to me. But I do have a couple of questions.

In view of your background and the information that you have on production costs and taxes, and considering world and U.S. consumption, what would you estimate to be a reasonable cost of tin per pound?

Mr. Weaver. Sir, as close as you can come to reasonable costs, I attempted to set forth on pages 11 and 12 of the statement.

It would vary from the highest producing country, Bolivia, which is an unusual situation, as well as the situation in Malaya.

I think the best norm, sir, is the cost of the two types of mines in Malaya.

The most efficient producers of the dredge method, which is the most efficient and economical production, I would estimate in the neighborhood of 50 to 60 cents per pound, and in the less efficient mines it runs as high as 90 cents per pound. This is largely small miners. It represents about 40 percent of production, and it is by gravel mining. I think that these two price estimates represent a fair standard.

Senator Beall. Of around 90 cents?

Mr. Weaver. Of around 90 cents to $1 represent a fair standard for the world as a whole.

Senator Bush. What is the world price today?

Mr. Weaver. The world price yesterday, I think, was $1.08 or $1.08½.

Senator Beall. Has there been any substitute for tin discovered?

Mr. Weaver. Not a practical one has been discovered, although there has been, in some products, aluminum is used instead of tin, but it has not proven feasible or practical.

Senator Beall. Considering the known reserve and other potential factors, what do you think will happen to the future tin prices? Do you want to comment on that?

Mr. Weaver. Sir, it is rather risky to speculate as to the future.

Mr. Coburn. Would you speak a little louder, Mr. Weaver? I cannot hear you.

Mr. Weaver. It is highly speculative trying to estimate the future.

One factor that concerns many people who deal with this metal has been the lack of increase in production to keep up with the increase in industrialization throughout the world.

There has been no new, significant production in the last several years in tin, and there has been this increase in industrialization throughout the world, therefore, a greater demand for tin.

This would have an important bearing on the price.

Another factor, in order to bring in new tin discoveries and to encourage the exploration for new tin, I think price is a factor that is involved. But I would hesitate to attempt to speculate any more precisely than that.

Senator Beall. That is hard to do, I appreciate that.

I was just wondering, this tin in the stockpile, does that tin depreciate in value when it is stockpiled?

Mr. Weaver. No, sir. That tin in the stockpile can be considered, I think, as valuable to our Government as the gold in Fort Knox. And I think the policies—of course, I speak subjectively because I was involved in the policies, but I think it can be defended that the

policies that resulted in the acquisition of our stockpile, as well as the safeguards against runaway prices that were established in 1951 and 1952, will prove of great value to our Government in the years to come.

Senator BEALL. If we had these stockpiles, if we maintained the stockpiles and they do not depreciate, would those stockpiles be sort of a lever for holding prices in line, do you think?

Mr. WEAVER. I think it has proven that, sir, in the last year since this policy was established.

Senator BEALL. Thank you, Mr. Chairman.

Senator SYMINGTON. Senator Bush?

Senator BUSH. Mr. Chairman.

I notice on page 12 you say we acquired 349,000 long tons since 1949 at an average price of $1.08½. What is your estimate of the annual consumption in the United States now?

Mr. WEAVER. The annual consumption in the United States now, sir, if I may, I would have to look that up——

Mr. COBURN. I am sorry, I cannot hear you, again.

Mr. WEAVER. The annual consumption in the United States, I think, runs around 60,000 tons, but I would have to check.

Senator BUSH. 60,000?

Mr. WEAVER. Yes, sir; but I would have to check that figure to be precise.

Mr. COBURN. May I interject here?

Our table that we will introduce shortly will show that it runs around 50, I think.

Senator BUSH. I was under that impression.

Mr. COBURN. 50,000 tons annually.

Senator BUSH. Around 50,000. So on that basis this 349,000 tons would indicate that we have a 7-year supply approximately of tin in the stockpile?

Mr. WEAVER. Yes, sir.

Senator BUSH. Are we still buying tin in the world market?

Mr. WEAVER. The consumers are still buying tin on the world market.

Senator BUSH. Did we buy any for the stockpile?

Mr. WEAVER. Sir, I would prefer that the representative from the GSA answer that question. This falls outside of the domain of our department.

Senator SYMINGTON. There is nothing on order in the stockpile today.

Senator BUSH. There is nothing?

Senator SYMINGTON. No.

Senator BUSH. What was the motivating force behind the continued purchase of this tin during the last decade or so?

In other words, we bought this 349,000 long tons. We built up this 7-year supply, so to speak, over this period of 10 years or so.

Why was that done?

We have heard testimony as to why this was done in lead and zinc and other metals, but why was this very large supply built up in tin, as you see it?

Mr. WEAVER. Well, I can only speculate on why. I was not in Government.

Senator BUSH. You are in a good position to do that. You know more about it than most of us.

Mr. WEAVER. Nor was I attached to this whole question during that period.

But it would be my assumption that this stockpile was accumulated as a protective device.

Now, when you examine the prices at which the stockpile was purchased during this period, you note that it stayed within the ceiling that was determined in 1951 and 1952, and the purchases, to one looking at them from the outside, would look to be a matter of protection to the United States.

You could question the costs of one or two of the contracts.

Senator BUSH. You think we ought to try to liquidate this stockpile to any important extent, or do you think it should be held at approximately the current figure?

We did pass a bill here, I think, to sell 50,000 tons.

Senator SYMINGTON. If the Senator will yield, that was partially a result of steel companies' urging the Government to have tin now available for sale because of their fear that the cartel operation was going to increase the price of tin. The largest steel companies in this country, for many months, were anxious to have the Government put in the position where it could sell this tin if the cartel to which Secretary Weaver referred to in his statement went into force and raised tin.

Senator BUSH. You are pretty well satisfied with this stockpile? Do I understand that is your feeling about it now, on tin?

Mr. WEAVER. I would take this position, sir: I think the stockpile, which is a fact, provides us with the instrument to develop an orderly policy of protecting the United States and preventing disruption of the market either up or down, either way up or way down.

I think it gives us the instruments and the tools that were so sadly needed and lacking at the outbreak of the Korean war.

Senator BUSH. The very distant location of these principal deposits of tin is an argument in favor of a good-sized stockpile under dangerous conditions in which we live today, is it not?

Mr. WEAVER. Yes, sir. It can be argued, I think, very persuasively that it is.

Senator BEALL. Do you feel that there is a cartel controlling tin prices today?

Mr. WEAVER. I think there was a cartel controlling the tin prices at the time that we were engaged in the exercise that I referred to in my statement.

The situation is different today, as I sought to imply at the conclusion of my testimony.

The countries in which tin is produced today are largely independent. The production is much more heavily taxed. The tax is utilized for development purposes in the countries. The Tin Council, the International Tin Council, unlike the period when we were dealing with it, is now composed of producers and consumers, each having equal vote.

The policies of the Tin Council, the stated policies of the Tin Council today are altogether different than they were at the time that we were dealing with this subject.

I think there are many factors that are completely different than they were at that time, but I still think that it requires eternal vigilance on our part to provide the continuing protection we need.

In providing protection for the United States on this metal, we are providing protection for the world, since we have the major responsibility for the defense of the world, and this is a vital and strategic metal for U.S. production.

Senator BEALL. I notice on this chart——

Senator SYMINGTON. Senator Bush, do you yield to Senator Beall?

Senator BUSH. Yes, I do.

Senator SYMINGTON. The other Senators have not had a chance to ask any more questions.

I just checked with the Senate and, unfortunately, the rule is still in effect. We only have 14 minutes.

Senator BEALL. I notice there is some domestic tin down in Texas. Is there domestic tin in this country?

Mr. WEAVER. Sir, we do not produce tin, but we have a smelter at Texas City, and I think that this is the tin that you are referring to. Our production is minute.

Senator BEALL. Thank you, Mr. Chairman.

Senator SYMINGTON. Senator Bush?

Senator BUSH. I yield.

Senator SYMINGTON. Senator Thurmond?

Senator THURMOND. I noticed on page 2 of your statement you said:

> We are a have-not Nation with respect to tin material resources. Decades of exploration have failed to reveal tin deposits within the United States adequate to supply even a few days of our annual demand.

In other words, you feel that it is important to maintain a stockpile of reasonable quantities of tin, as I understand it, because we do not produce tin here.

Therefore, we ought to maintain a stockpile of some size.

Now, Malaya, Indonesia, Bolivia, Thailand, and other countries produce tin, and we have been getting our tin from those countries, have we not?

Is that the case?

Mr. WEAVER. Yes, sir.

Senator THURMOND. Is it your thinking, then, that we should reduce this stockpile of tin or not?

Mr. WEAVER. Sir, I believe that we should maintain a substantial reserve of tin.

Senator THURMOND. What do you consider now a "substantial reserve"?

Do we have too much tin on hand now, in your judgment? You are an expert, as I understand it, on tin.

Mr. WEAVER. I think that in view of the recent legislation passed to dispose of 50,000 tons, that the remaining tonnages of tin that we have in our stockpile represent a very desirable insurance for the United States, not only for production purposes, but also to prevent the kind of runaway price situation that we faced at the outbreak of the Korean war.

Senator THURMOND. In other words, you feel we should not dispose of any more of the tin in the stockpile for two reasons, as I understand it:

One is we may need the tin.

The other is it will help to maintain the stabilization of the price of tin, is that correct?

Mr. WEAVER. Yes, sir.

Senator THURMOND. Thank you very much.

Senator SYMINGTON. Senator Engle?

Senator ENGLE. I have read Secretary Weaver's statement. It is an excellent statement, and the questions that Senator Thurmond asked are the ones which I would ask.

Thank you very much.

Senator SYMINGTON. Mr. Counsel?

Mr. COBURN. Mr. Witness, if you will turn to page 12 of your statement, please, there was one sentence there that I did not understand you to read as your statement reads, and I want to make sure that we are correct on that.

In the middle of the page, you say:

> The export duty on tin concentrates is about one-sixth of the tin price plus taxes which make a total of about 56 percent,

my statement reads.

Mr. WEAVER. I am sorry, sir, that is a typographical error.

I thought they were all corrected. It is a total of about 50 percent.

Mr. COBURN. That is what I understood you to say, and my statement did not read that way, and I thought maybe you had misread it.

But 50 percent is correct?

Mr. WEAVER. Yes, sir.

Mr. COBURN. Now, Mr. Weaver, I want to make sure that the record at least shows clearly your experience with reference to the tin prices and tin production back in the days of 1950 and 1951.

As I understand it, at that time the RFC was buying tin ore in the world market for the stockpile, was it not?

Mr. WEAVER. Yes, sir.

Mr. COBURN. That was the ore itself?

Mr. WEAVER. That was the ore itself.

Mr. COBURN. And the ore was being shipped, then, from overseas to the Texas City refinery which was operated by the RFC?

Mr. WEAVER. That is right, sir.

Mr. COBURN. And there the ore was being smelted into tin metal?

Mr. WEAVER. Yes, sir.

Mr. COBURN. And then that tin metal was purchased by the stockpile from the RFC?

Mr. WEAVER. Yes, sir.

Mr. COBURN. And it was in these circumstances that the Korean conflict occurred at that time?

Mr. WEAVER. That is right, sir.

Mr. COBURN. And the enormous increase in price resulted that you have testified about?

Mr. WEAVER. Yes, sir.

Mr. COBURN. On your right there is a large chart which will be offered in the record in due time.

That chart shows an enormous peak running up to a very high point above all other prices in the early part of 1951. It looks something like the Empire State Building on the skyline of New York, does it not?

Mr. WEAVER. Yes, sir.

Mr. COBURN. Was that the increase in price that you mentioned in your statement?

Mr. WEAVER. Yes, sir. That is the period which caused us many sleepless nights.

Mr. COBURN. It occurred in the early days of the Korean conflict?

Mr. WEAVER. Yes, sir.

Mr. COBURN. And, as a result of that enormous increase in price, the RFC, and, in fact, the U.S. Government, with the RFC included, sent a mission to Bolivia to determine what their actual costs were there?

Mr. WEAVER. Yes, sir.

Mr. COBURN. As I understand it, Bolivia, Malaya, and Indonesia were all a part of the tin combine?

Mr. WEAVER. Yes, sir.

Mr. COBURN. That were selling the tin to the RFC?

Mr. WEAVER. Yes, sir.

Mr. COBURN. And the RFC felt that it was being held up in those days?

Mr. WEAVER. That is a mild understatement, sir.

Mr. COBURN. And so the mission went to Bolivia?

Mr. WEAVER. Yes, sir.

Mr. COBURN. And you were a part of that mission, in fact, you were the chief of the mission, as far as the RFC was concerned?

Mr. WEAVER. Yes, sir.

Mr. COBURN. And you spent how much time down there, Mr. Weaver, studying the production and production costs in Bolivia?

Mr. WEAVER. About a total of 2 months in the summer of 1951, sir.

Mr. COBURN. And you then arrived at this figure of $1.12 a pound that you thought was quite ample from the standpoint of allowing for profits and taxes and cost of production?

Mr. WEAVER. Yes, sir.

Mr. COBURN. And on your recommendation the RFC bought a quantity of tin concentrate that was lying in port in Chile at the time?

Mr. WEAVER. Yes, sir.

Mr. COBURN. As I understand it, the tin ore from Bolivia had to be shipped down from the high mountains down to a Chilean port before it could reach the world market?

Mr. WEAVER. That is right, sir. Bolivia is landlocked.

Mr. COBURN. And Chile, too, imposed a tax on that tin ore?

Mr. WEAVER. Yes, sir.

Mr. COBURN. So all of those factors, the Bolivian taxes, the Chilean taxes, the fact that the ore was mined in the very high altitude and the cost of shipment, all that contributed to a very high cost of mining in Bolivia, did it not?

Mr. WEAVER. Yes, sir.

Mr. COBURN. It was generally understood, was it not, that the tin produced in southeast Asia could be produced at a lower cost than in Bolivia?

Mr. WEAVER. Yes, sir, that is true.

Mr. COBURN. For the reasons we have just mentioned?

Mr. WEAVER. Yes. This is recognized throughout the tin market among the tin people.

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Mr. COBURN. Now, then, after this mission went to Bolivia, did a similar mission go to southeast Asia?

Mr. WEAVER. Yes, sir.

Mr. COBURN. Where you visited Malaya and Indonesia?

Mr. WEAVER. Yes, sir; Singapore, Thailand, and Indonesia.

Mr. COBURN. You were a member of that mission, were you not?

Mr. WEAVER. I was, sir.

Mr. COBURN. And when you got to Malaya, did you undertake to obtain production costs there in Malaya?

Mr. WEAVER. Yes, sir.

We found a very confused situation at the time, and I must say that our success in finding production costs as well as reaching an agreement was not as good as in Bolivia.

Mr. COBURN. You were unable to obtain definite costs in Malaya?

Mr. WEAVER. That is right, sir.

Mr. COBURN. I believe you said that it was generally understood in the tin industry that the costs of mining, everything else being ordinary and equal, in Malaya were much cheaper than it Bolivia?

Mr. WEAVER. Yes, sir.

Mr. COBURN. Now, why was that, Mr. Weaver?

Mr. WEAVER. Well, the method of mining and the richness of the ore also were important factors. However, I must say that during the period that we were in Malaya, one of the great difficulties was the guerrilla warfare.

Mr. COBURN. I will get to that in just a moment. As I understand it, the mining was quite different. They did not have deep-shaft mining.

Mr. WEAVER. No, sir.

They have mining by dredges the same as we—the best comparison I can think of is gold mining. It is open face and it is much easier. much less difficult than in Bolivia.

Mr. COBURN. In other words, it was really open-pit mining?

Mr. WEAVER. Open-pit mining, yes, sir.

Mr. COBURN. They used floating dredges?

Mr. WEAVER. Floating dredges.

Mr. COBURN. Because of the heavy rainfall down there?

Mr. WEAVER. Yes, sir.

Mr. COBURN. But essentially it was open-pit mining as distinguished from the deep-shaft mining in Bolivia?

Mr. WEAVER. That is right, sir.

Mr. COBURN. And, of course, in all forms of mining the open-pit mining is cheaper than the deep-shaft mining, is that right?

Mr. WEAVER. Yes, sir.

Mr. COBURN. Now, the same is true in Indonesia?

Mr. WEAVER. Yes, sir. In Indonesia the same is true.

Mr. COBURN. Let us see, when was it that you were in Malaya and——

Mr. WEAVER. In 1951. We left in the latter part of October and returned in December.

Mr. COBURN. There was, however, a complicating factor that was in existence at that time that did increase the costs in Malaya, is that correct?

Mr. WEAVER. That is correct, sir.

Mr. COBURN. What was that?

Mr. WEAVER. Malaya was undergoing the height of the guerrilla warfare which engaged them for about 9 or 10 years.

Mr. COBURN. Speak a little louder, please.

Mr. WEAVER. Which engaged the country for about 9 or 10 years. They were fighting the Communist guerrillas, and the mines were located outside of the cities, and it had a decided impact on the production as well as the costs.

Mr. COBURN. That is, it reduced the production?

Mr. WEAVER. It reduced the production.

Mr. COBURN. Because of interference with work?

Mr. WEAVER. That is right.

Mr. COBURN. And the workers in the mines had to be protected against guerrilla infiltration and destruction?

Mr. WEAVER. That is right, sir.

Mr. COBURN. And much of the expense of that fell on the mining companies as well as the Government?

Mr. WEAVER. Yes, sir.

At that time a considerable cost fell on the mining companies. They had to provide their own security in many of the areas where they mined.

Mr. COBURN. I believe that is all, Mr. Chairman.

Senator SYMINGTON. The Preparedness Subcommittee supplementary report, issued on July 16, 1952, reported that, as a result of this successful effort to prevent higher prices, and establish lower prices, the saving to the American people was $500 million.

What would your thoughts be on that?

Mr. WEAVER. I remember, sir, at the time I thought the figure was a little conservative.

Senator SYMINGTON. The Texas City smelter was originally established to handle low-grade Bolivian ores, as I remember it, then maintained in order to have a smelter outside the cartel?

Mr. WEAVER. Outside the tin combine; that is right, sir.

Senator SYMINGTON. Why was it ever sold?

Mr. WEAVER. This puzzled me a great deal. I have not been able to determine what I consider good reasons why it was sold, as valuable as it was to us during the period that we were dealing with tin.

Senator SYMINGTON. When was it sold?

Mr. WEAVER. It was sold, if my memory serves me correctly, in 1954 or 1955.

Senator SYMINGTON. To whom was it sold?

Mr. WEAVER. It was sold to a combine, I think the name is C. F. Yang & Co.

Senator SYMINGTON. C. F. Yang?

Mr. WEAVER. Yang & Co., I think.

Senator SYMINGTON. Is there any tin smelter of substantial size outside of the previous cartel?

In other words, for example, do the Malayans own their own smelter now or is the smelter still owned by the cartel?

Mr. WEAVER. The smelter is still owned by the same group of corporations that owned it during the period, sir, when we were deeply involved in tin.

To answer your question specifically, I do not know of any smelter outside of the group of smelters that was in operation in 1951, except the Texas City smelter.

Senator SYMINGTON. Mr. Secretary, there are several other questions I would like to ask you, but we asked if we could meet beyond 10 o'clock this morning and were refused.

We would like to have you back.

Let me say in closing this thoughtful statement is typical of your efforts in Government. I have been around this town a long time, and have yet to meet a better public servant.

We appreciate the information you have given us this morning.

Mr. WEAVER. Thank you, sir.

Senator SYMINGTON. The hearing will recess until tomorrow at 10 o'clock.

(Whereupon, at 10 a.m., the hearing was adjourned, to reconvene at 10 a.m., Wednesday, August 1, 1962.)

STOCKPILE INVESTIGATION

WEDNESDAY, AUGUST 1, 1962

U.S. SENATE,
SUBCOMMITTEE ON THE NATIONAL STOCKPILE
AND NAVAL PETROLEUM RESERVES OF THE
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee (composed of Senators Symington (chairman), Thurmond, Engle, Cannon, Beall and Bush) met, pursuant to notice, in room 235, Old Senate Office Building, at 9 a.m.

Present: Senators Symington (presiding), Thurmond, Engle, Cannon, and Bush.

Also present: Richmond C. Coburn, chief counsel to the subcommittee; T. J. May, assistant counsel; J. H. Zimmer, assistant counsel; Edward O. McCue, III, assistant counsel; and James J. Gehrig, special assistant to Senator Symington.

Senator ENGLE (presiding). The subcommittee will be in order for further hearings with reference to the national stockpile, this morning the subject being a contract with the American Chrome Co.

Counsel, will you call the first witness, please?

Mr. COBURN. Thank you, Mr. Chairman.

May I say, before we call the first witness, that the contract that is under consideration today is a contract for the purchase of metallurgical grade chromite of a nonspecification or below-specification grade.

We have 985,000 tons of nonspecification metallurgical grade chromite in the stockpile.

The evidence will show that nearly all of that came from this contract.

The first witness is Mr. John Croston, Mr. Chairman.

Senator ENGLE. Mr. Croston.

Mr. COBURN. Mr. Croston, will you come up, please?

Senator ENGLE. Mr. Croston, you have been previously sworn, but, to keep the record straight, you will be sworn again.

Do you swear the testimony you are about to give in this matter will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CROSTON. I do.

Mr. COBURN. Will you identify yourself, please, sir, with your name and address?

TESTIMONY OF JOHN CROSTON, DIRECTOR OF THE ECONOMIC AND MARKETING RESEARCH DIVISION, DEFENSE MATERIALS SERVICE, GENERAL SERVICES ADMINISTRATION

Mr. CROSTON. My name is John Croston, I am Director of the Economic and Marketing Research Division of the Defense Materials Service, which is part of the General Services Administration.

Mr. COBURN. How long have you been with General Services Administration?

Mr. CROSTON. Since about 1953 when it absorbed the Defense Materials Procurement Agency.

Mr. COBURN. Before that, you were with Defense Materials Procurement Agency, were you?

Mr. CROSTON. I was with DMPA and with the War Production Board, the Office of Production Mobilization and other agencies.

Mr. COBURN. How long have you been in the Government service continuously?

Mr. CROSTON. Outside of military service, about 22 or 23 years.

Mr. COBURN. Now, Mr. Croston, do you know of a chrome mine located at or near Nye, Mont.?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Where is Nye, Mont.?

Mr. CROSTON. In roughly the southern part of the State of Montana.

Mr. COBURN. It lies north of Yellowstone Park some distance, would you say?

Mr. CROSTON. I would say it would be—yes, north and east, I think.

Mr. COBURN. It is in the mountains there, is it, north of Yellowstone Park?

Mr. CROSTON. It is in the Bear Tooth Mountains.

Mr. COBURN. Pretty rough country there, is it?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Mr. Croston, when was this mine first opened and operated?

Mr. CROSTON. It might be better perhaps if I gave you a little bit of the background.

The presence of chromite was known in that area in the 1880's, and desultory efforts were made up to the time of the crash in Wall Street to do something with these deposits, but without any great success. They remained relatively dormant until the outbreak of World War II.

I have a little bit from my records here for the background.

Mr. COBURN. Speak close to the microphone, will you, Mr. Croston, so that everyone can hear you clearly, please?

Mr. CROSTON. During the early days of the war preparation, the Advisory Council for the Commission for National Defense thought it advisable that, regardless of the economics of the situation, that in view of the fact that our access was being restricted to the chromite areas of Turkey, Yugoslavia, Greece, and Cyprus, it might be well for the United States to develop an alternate source for part of its requirements in the United States, regardless of cost.

Although there were chromite deposits in other Western States, the largest deposit of chromite known in America was in this area in Montana, this so-called Stillwater complex.

It had been studied to a considerable degree, and it was known that the deposits were low grade; that the type of chromite was somewhat different from that in other parts of the country or other parts of the world; but it was felt that it would be in an emergency an alternative source of chromite.

When Pearl Harbor arrived and the Japanese cut off the Philippine chromite, which is mostly a refractory grade of chromite, it appeared that we might also lose New Caledonia as a source of supply. The OPM requested the Metals Reserve Co. and the Defense Plant Corp. to study and to lease the properties from the owners, the Mouat family and Edward Sampson, and to develop the property. Tentatively, it was decided to put in a 1,000-ton mill.

The Metals Reserve Co. made arrangements with the Anaconda Co. to act as managers of the enterprise, and they built a mill on the Mouat property.

Just before that, however, the Metals Reserve had built also a smaller mill at the Benbow property, which was some few miles away, and that was operated also for a while.

The Mouat mill came into operation in May 1943 and the mill was built with four units of a design capacity of 500 tons per day for each unit. The units developed a capacity, or an ability to treat, about 750 tons a day, so that actually the plant, if it operated at capacity, would have been able to treat 3,000 tons of ore a day.

The Anaconda Co. put in excellent housing and other facilities, but, notwithstanding that, they never were able to get enough labor to operate more than one section of the four-section mill.

The property operated from May until October. It was 6 months of operation.

Mr. COBURN. During 1943?

Mr. CROSTON. During 1943. Then it was shut down because none of the anticipated difficulties materialized with regard to our supplies of chrome, and the stocks of chrome, which were only 675,000 tons as of June 1940, increased to 1,200,000 tons by January 1 of 1943.

There was a terrific shortage of labor in the Northwest, and the copper mines required labor, and it was thought advisable to first shut down the Benbow operation and transfer some of the people over to the Mouat operation. They finally shut down the Mouat operation and transferred some of the men back to copper mining.

Mr. COBURN. How much chromite did they produce there, sir?

Mr. CROSTON. The company mined 185,600 short tons of ore. Of that, they milled 79,310 tons of ore, and from that they produced 26,373 long tons of concentrate. These concentrates averaged 38.81 percent chrome oxide, and they ran 1.46 to 1 chrome/iron ratio.

Mr. COBURN. After the mining operation was closed down there during World War II, was there any kind of a report made either to the Government, or by the Government, with reference to whether this was metallurgical grade or only a chemical grade of chromite?

Mr. CROSTON. During the operation, they produced 26,000 tons of concentrate, but they were only able to sell 4,837 long tons of the concentrate to consumers, most of which were experimental shipments.

Mr. COBURN. Why were they only able to sell that small amount?

Mr. CROSTON. The concentrate was a very high iron concentrate and lower in grade than commercial chromite. As long as we were bringing in chromite from abroad that was high in grade and had a

low iron ratio, there was no point in using the low-grade, high-iron material, because in processing it in a plant you would cut the output of a plant and you would increase your unit costs a great deal on account of the presence of excess iron.

Mr. COBURN. To put it briefly, then, the consumers would not take it, is that it?

Mr. CROSTON. That is right, sir.

Mr. COBURN. All right.

Now, at the conclusion of the operation there, was there any kind of a report made with reference to whether it was feasible to use this material?

Mr. CROSTON. It was known at the start of the operation that the ore could be used for metallurgical purposes, although it was thoroughly uneconomic.

One proposal was to take part of the ore, about two parts of the ore, and chemically process it to reduce its iron, and then mix it with a third of the untreated ore to produce material that would have a low iron ratio that then could be converted into ferrochrome.

Subsequently, other proposals were made to convert it into low-grade ferrochrome directly, and one firm would produce so-called exothermic alloy of low chrome content.

The fact, however, is that the American steel industry did not desire it as long as they could get good material from abroad, and, of course, cheaper. The material that was produced at this operation was subspecification of course, the costs were rather meaningless, because they only ran for 6 months, and they only ran the mill at a quarter of the capacity, for they were short of labor.

During the operating period, they operated 7 days a week with their labor and the men got time and a half on Saturday and double time on Sunday.

Mr. COBURN. Let me ask you this, Mr. Croston: Was there a report made to the U.S. Government that this material was not of metallurgical grade but only of chemical grade?

Mr. CROSTON. After the operation was shut down, and about the time it was being transferred to War Assets for disposal, the RFC reported that the only sensible use for the material would be a low-grade chemical chromite for which there was a limited market. The two big markets for chromite were metallurgical chromite and refractory chromite, and ample supplies of cheap South African chemical chromite were available which were higher in grade and lower in iron than this material. The chance are the only uses for this material would be chemical.

Curiously, in GSA some months ago, we had a request from a small chemical processor out West who wanted to get hold of some concentrates, for he had been using this type of material in the past. We had a small stockpile at Butte, Mont., of this type of concentrate, so the material was sold to him.

Mr. COBURN. I notice that in the stockpile we have chemical grade chromite as a strategic item, but our maximum objective is only 475,000 tons, and it is a small item in the stockpile, is it not?

Mr. CROSTON. Relatively; yes, sir.

Mr. COBURN. And our objective is more than overpurchased, so that the chemical grade chromite is by no means as important to the stockpile as the metallurgical grade, is that not correct?

Mr. CROSTON. Yes, sir. Its principal purpose is for pigments and tanning and plating.

Mr. COBURN. The chemical grade?

Mr. CROSTON. Yes.

Mr. COBURN. Is that right?

Mr. CROSTON. Yes, sir.

Mr. COBURN. We do not get the nod of your head. The reporter does not. You have to say "yes" or "no."

Mr. CROSTON. Yes, sir.

Mr. COBURN. What was your answer?

Mr. CROSTON. Yes.

Mr. COBURN. Now, then, Mr. Croston, I want to turn to this particular contract with the American Chrome Co. Have you made a study of the Defense Materials Procurement Agency file, at my request, with reference to that contract?

Mr. CROSTON. Frankly, only very briefly. I have some of the essential dates.

Mr. COBURN. That is what I have in mind.

Mr. CROSTON. Yes.

Mr. COBURN. I will ask you about that.

Mr. CROSTON. I had no connection with the negotiations leading up to the contract or the signing of the contract. I did have knowledge of it during the World War II period in the War Production Board, but the other information, as I say——

Mr. COBURN. I only want to ask you about some salient features of the contract. I know you had nothing to do with the negotiation of it.

Now, when was the application of the American Chrome Co. filed with DMPA for this contract?

Mr. CROSTON. On January 3, 1951.

Mr. COBURN. And the contract was actually signed by the parties when?

Mr. CROSTON. April 21, 1952.

Mr. COBURN. How much ore was purchased by this contract by the Government?

Mr. CROSTON. The contract was for 900,000 short tons of concentrate.

Mr. COBURN. This was a contract that was made under the Defense Production Act, was it not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Rather than the Stockpile Act?

Mr. CROSTON. Yes.

Mr. COBURN. And how much was the basic price per ton for this ore?

Mr. CROSTON. The basic price was, I believe, $34.67 a ton of concentrate, short ton.

Mr. COBURN. Did the Government, besides agreeing to pay that price, put any machinery into the project?

Mr. CROSTON. Yes. They made loans from different agencies totaling, I think, roughly about $3 million.

Mr. COBURN. For machinery?

Mr. CROSTON. Machinery and equipment; yes.

Mr. COBURN. What was the market price?

Excuse me, let me ask you this first:

What was the grade of chromite that was to be produced by this contract?

Mr. CROSTON. About 38.5 percent.

Mr. COBURN. And what was the minimum grade for the stockpile at that time?

Mr. CROSTON. At that time the minimum grade was 42 percent. That had been reduced some time before from, I think—I have not the record here, but if my memory serves me, the minimum was 48 percent before that.

It was then reduced to 42, and then subsequently in 1956, the copy that I have here, it is back to 48 percent.

Mr. COBURN. At the time the contract was made, however, the minimum specification for the stockpile was 42 percent?

Mr. CROSTON. Yes, sir.

Mr. COBURN. So that this contract called for the purchase of 900,000 tons of subspecification chromite?

Mr. CROSTON. That is right.

Mr. COBURN. You have told us what the basic price was for this chromite under the contract.

What was the market price for specification grade chromite at the time the contract was made?

Mr. CROSTON. For the week during which the contract was signed, 44 percent Transvaal chromite was quoted in the Engineering & Mining Journal at $27 a long ton.

Mr. COBURN. So we paid approximately $8 a long ton more than the market price that was quoted for much higher specification chromite, is that right?

Mr. CROSTON. Yes, sir.

Mr. COBURN. When, under the contract, were the deliveries to be made?

Mr. CROSTON. The deliveries started in August 1953, and they continued for about 8 years. The contract was for 900,000 tons, or what they could produce in an 8-year period, if I remember right, and the last deliveries were completed, I think, on October 4. I was in Butte, Mont., at the time.

Mr. COBURN. October 4 of what year?

Mr. CROSTON. Of 1961, the past year.

Mr. COBURN. Did they deliver the entire 900,000 tons?

Mr. CROSTON. No; they were short 60 pounds.

Mr. COBURN. Sixty pounds?

Mr. CROSTON. Yes, sir; 899,999 97/100 tons.

Mr. COBURN. Mr. Croston, when this ore was delivered, what was done with it?

Mr. CROSTON. It was stockpiled at the mine and is still there.

Mr. COBURN. Left at the mine?

Mr. CROSTON. Yes, sir.

Mr. COBURN. We have here, Mr. Chairman, two pictures that stand to the right of the witness.

Will you look at those pictures, Mr. Croston, and tell us whether those are pictures of the pile of ore at the minesite?

Mr. CROSTON. Yes, sir.

Mr. COBURN. This big pile in the front of the picture is the ore pile itself; is it?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And the pile behind that is the mountain; is that it?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Now, that looks like pretty rugged, remote country. Is that mine located on a railroad?

Mr. CROSTON. No, sir. It is located, I should say, about 40 miles from a railroad.

Mr. COBURN. There is a highway, though?

Mr. CROSTON. Yes, sir.

Mr. COBURN. That goes from this mine down to the railhead?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And that is about 40 miles away?

Mr. CROSTON. Approximately that.

Mr. COBURN. So if this ore were moved to market to be smelted, it would have to be moved over the highway 40 miles to the railhead; is that right?

Mr. CROSTON. Yes, sir; unless they treated it locally.

Mr. COBURN. I will get to that in a moment.

And then they would have to carry it by rail from there to the nearest smelter; would they not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Are there any smelters out in that country that could smelt this ore?

Mr. CROSTON. Not for ferrochrome in that neighborhood. There are ferroalloy plants in the East. About the nearest would be in Ohio or Oregon.

There is a smelter at Spokane, in Washington, a ferroalloy plant, but in either direction you have to haul over the mountains going west or a very considerable haul from Montana to Ohio or West Virginia to the ferroalloy plants in those States.

Mr. COBURN. Now, the other alternative would be to try to upgrade this material into ferrochrome at the site; would it not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And that would require what?

Mr. CROSTON. It would require a tremendous amount of electric power if it was done on any scale.

Mr. COBURN. Well, is there a plant there to do that now, Mr. Croston?

Mr. CROSTON. What do you mean by "plant," sir?

Mr. COBURN. Well, do you have to have a plant?

Mr. CROSTON. A powerplant, do you mean, or a processing plant?

Mr. COBURN. A plant to upgrade it to ferrochrome.

Mr. CROSTON. No, sir.

The company erected a pilot plant to pilot the process that they figured on using to produce the ferrochrome.

Mr. COBURN. That is, the American Chrome Co. did that?

Mr. CROSTON. Yes, sir.

Mr. COBURN. You do not know about how much they produce there or anything of that kind yourself, do you?

Mr. CROSTON. No, sir.

I have no record of it, but it was, I believe, only pilot plant quantities for experimental purposes, and I think a little for distribution to possible consumers.

Mr. COBURN. You do not know how that experiment came out, how that pilot plant worked, whether it was successful or not?

Mr. CROSTON. I have no knowledge.

The company claimed the operation was successful, but, on the other hand, they were unable to secure any private capital for it, and came to the Government with a proposal to convert the material into ferrochrome.

Mr. COBURN. You say the American Chrome Co., now that they have finished the mining operation, has made a proposal to the Government to improve this ore into ferrochrome?

Mr. CROSTON. They came to GSA about 5 years ago initially with a proposal to convert the material. We made a perfunctory examination of it, but at that time we had no authority to go ahead with upgrading or a conversion program like that. More recently, about a year ago or so, they made a proposal to the Department of Agriculture to take this material and convert it at a cost, I think the cost was something—wait a minute, I have probably got it here somewhere—at a cost of $65,322,000.

Mr. COBURN. $65 million?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Did I hear you correctly?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Well, the Government did not accept that proposition, did it?

Mr. CROSTON. This proposal went to the Department of Agriculture, and I think they are better prepared to discuss that than GSA would be.

Mr. COBURN. Well, I am not asking you to discuss it. Did they accept it or not?

Mr. CROSTON. No, sir.

Mr. COBURN. All right.

Now, does GSA have any plans at the moment for this mountain of ore out there?

Mr. CROSTON. Not at present, sir.

That is one of the problems that will face my Division: What to do with this mountain of material.

Mr. COBURN. Do you have any immediate recommendations to make with reference to this? If you have not any, say so. We just want to be brought up to date.

Mr. CROSTON. Frankly, at this time I have no recommendation. The material is not desired by the ferroalloy industry, and at the moment the steel industry in the Western United States is not big enough to have local ferroalloy plants nearby where the material might be converted into a low-grade ferrochrome or otherwise utilized. It is in one of the most unfortunate locations in the United States from a transportation standpoint. It might almost as well be in Alaska.

We have had studies made which indicate that if a ferroalloy plant purchased chromite ore in Africa and shipped it to the African coast and transported it across the Atlantic to New York and then railed it from there to Ohio, the cost of producing ferrochrome would be within $1 or so per ton of ferrochrome of the cost of utilizing this material, transporting it from Montana to Ohio, and the GSA to give them the material for nothing.

Mr. COBURN. Mr. Croston, just so the record will be complete, ferrochrome is used principally in connection with making certain types of steel; is it?

Mr. CROSTON. Mostly for making steel, stainless steels and chrome steels and used, to some extent, in foundry irons, but its biggest use is in the steel industry.

Mr. COBURN. One more question about this pile of ore.

I notice in those pictures that we have here that there is a light, filmy sort of thing that looks like the pile might be smoking, but, of course, is it not.

What is that anyhow? What makes that appearance in those pictures? Would that be due to the chrome blowing in the wind?

Mr. CROSTON. It is possible; although, of course, the chrome concentrate is quite finely divided, it would roughly go through a window screen, it is that finely divided, but it is pretty heavy material.

There might be some of it more finely divided material than that——

Senator SYMINGTON. Will counsel yield?

Mr. CROSTON. That would blow away.

Senator SYMINGTON. Are you going to join the group, and it is getting larger, that believes if we just sit on all this long enough, it will all go away?

Mr. COBURN. Mr. Croston, I do not want to prolong this, but it is a fact, is it not, that this chrome ore is light, filmy stuff that blows easily?

Mr. CROSTON. If it is very finely divided, pulverulent; it would blow, but the chromite concentrate is rather heavy actually.

Mr. COBURN. Well, I just want to know what the facts are.

From looking at those pictures, does that appear to be a case of the wind blowing some of that pile away there? This pile is not smoking; is it? It is not hot or anything like that? Then how do you account for that, Mr. Croston?

Mr. CROSTON. Well, that may be due to wind. I do not know.

Of course, we do have some finely divided chromite concentrates in storage elsewhere, and manganese that is finely divided, and over a period of time dust that is blown on the top of the pile and settling there gradually germinates with grass and so on, and there is a certain degree of protection from then on.

We have, for instance, some Russian manganese ore that has been in storage, and it is covered with a light film of grass now, which keeps anything from blowing away, and if a war came along and we needed it, you could just strip that material off, and the ore is perfectly usable.

The cost of covering it with some of a permanent cover would be prohibitive compared with the loss.

Mr. COBURN. This is high mountain country out there, is it not, Mr. Croston?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Where there are pretty high winds, naturally?

Mr. CROSTON. Yes.

Mr. COBURN. Do you know when American Chrome built the pilot plant out there?

Mr. CROSTON. I would not be positive. I think it was somewhere around 1954 or 1955 that they installed a very small furnace and then

I understand that that was increased by a larger furnace as they continued their experimentation to develop successful methods for making ferrochrome.

Mr. COBURN. Nothing further, Mr. Chairman.

Senator SYMINGTON. Senator Engle?

Senator ENGLE. What did this mountain of junk cost the American taxpayers?

Mr. CROSTON. I did have it here somewhere, $31,689,000.

Senator ENGLE. Does that include the $14 million that was put in previously by a preceding company?

Mr. CROSTON. No, sir. This is the contract with American Chrome.

Senator ENGLE. They did have $14 million in preceding that; did they not?

Mr. CROSTON. I believe, about that, if you include capital costs plus the operating costs that were incurred during the 6-month operation.

Senator ENGLE. So the American taxpayer is into this pile of useless material to the tune of about $45 million?

Mr. CROSTON. Approximately that.

I would not say, I would not agree, however, Senator, with the statement that it is useless at this stage. Give me an opportunity for a year or two to see if I can get something out of it. I do not think it is useless. It certainly has no great strategic value.

It has no value for stockpiling purposes because we have a great excess of high-grade chromite concentrates and chromite lump ore on hand. But we will be able to salvage something from this, I hope.

Senator ENGLE. Thank you, Mr. Chairman.

Senator SYMINGTON. Senator Bush?

Senator BUSH. No questions.

Senator SYMINGTON. Senator Cannon?

Senator CANNON. No questions.

Senator SYMINGTON. Senator Thurmond?

Senator THURMOND. No questions.

Mr. COBURN. Mr. Chairman, I had one thing I want to clarify here.

Now, you said, Mr. Croston, that we paid $31-million-odd-thousand here for this; had you not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. That is the purchase price of the ore bought, total purchase price?

Mr. CROSTON. Yes, sir.

Mr. COBURN. That does not include about $3 million worth of machinery you say that we installed at this place when American Chrome began this operation?

Mr. CROSTON. I would have to check on that. It seems to me the money paid out included liquidation of the amount loaned the company.

Mr. COBURN. We want to know what the facts are here, Mr. Croston.

Will you get for the record, will you supply for the record how much more the Government put into this American Chrome Co. contract than the $31 million that they paid for the ore? We want to know that.

Can you supply us with that later?

Mr. CROSTON. Yes, sir, I will.

(The information requested is as follows:)

Total cost of American Chrome Co., contract and total U.S. expense in acquiring subspecification chrome concentrate

American Chrome Co. contract:	
Purchase of chrome concentrate	$31, 689, 000
Purchase of equipment	2, 165, 000
Loan to American Chrome	950, 000
Total	34, 704, 000
Less:	
American Chrome purchase of equipment from GSA	1, 000, 000
American Chrome loan repayment	950, 000
Total	1, 950, 000
Total cost, American Chrome contract	32, 754, 000
Cost of 1943 experiment:	
Capital expense	9, 841, 545
Operating loss	1, 355, 092
Total cost, 1943 experiment	11, 196, 637
Total expense to United States in developing and acquisition of subspecification chrome concentrate	43, 950, 637

Mr. COBURN. I believe that is all, Mr. Chairman.

Senator SYMINGTON. Thank you, Mr. Croston, for appearing this morning.

Mr. Counsel, have you another witness?

Mr. COBURN. Yes. May I call the next witness, Mr. George B. Holderer.

Senator SYMINGTON. Mr. Holderer will you please come up.

Before you start questioning Mr. Holderer, I have an article here from the American Metal Market.

The headline is:

Symington's Stockpile Counsel To Resign. Coburn To Step Down as Symington's Counsel.

What do you know about this?

Mr. COBURN. Mr. Chairman, I know nothing about the article except that I have seen it and read it. I know nothing about it whatever.

Senator SYMINGTON. Would you mind commenting on the accuracy of the article, for the benefit of the subcommittee?

Mr. COBURN. I am free to say that as long as my services are deemed to be of value to the committee, I intend to serve the committee and do not intend to resign until the job is finished.

Senator SYMINGTON. That was the arrangement when you came, was it not?

Mr. COBURN. Yes, it was, Mr. Chairman.

Senator SYMINGTON. So far as I know, there has been no change in that arrangement.

In case anybody on the subcommittee is dissatisfied with the counsel's efforts—certainly the chairman is not; he has great respect for the thoroughness with which counsel is going into the matters in question—I wish they would let us know.

I like to get such matters cleared up.

We cannot clear up everything, every day, the American Metal Market says. If we did, we would go out of this stockpile investigation into the answering business, answering "service," one might call it.

I note this article says:

> Senator Symington indicated these were not the only former Eisenhower administrative officials who would be called.

It mentions Secretary Humphrey. Mr. Humphrey wired the committee and asked to be called. It mentions Secretary Flemming, who also has requested to be recalled.

Then it goes on:

> In fact, the Missouri Democrat has made it clear he would subpena former President Eisenhower himself if he thought he could get away with it.

That statement is totally untrue.

I have never had any discussion with the gentleman who wrote the article. This latter misstatement has never even been considered by the committee, and is typical of the kind of reporting that has gone on for sometime in this particular medium.

If any other member of the subcommittee has any comments—I want to say once again, we intend to get the truth, despite any objections from such sources.

Senator BUSH. I might just say, Mr. Chairman, that, on behalf of the minority, I have never been consulted by any reporter.

I do not believe Mr. Beall has, and I think we can disclaim any possible responsibility for such rumors or any of the statements that have been made in that paper.

Senator SYMINGTON. Let me say, having known the distinguished senior Senator from Connecticut for many years, I was sure, in my own mind, as I would also be about Senator Beall, that he would never be a source for such a story.

Senator THURMOND. Mr. Chairman, this is the first I have heard of this.

I just want to say I am surprised to see it. So far as I know, the chief counsel is a very able lawyer and is doing a fine job.

Senator SYMINGTON. Thank you, Senator.

Mr. Holderer, it is the custom on this committee to swear all witnesses.

Will you raise your right hand?

Do you swear that the testimony you give this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HOLDERER. I do.

Senator SYMINGTON. Be seated, please.

Proceed, Mr. Counsel.

Mr. COBURN. Will you state your name and address, please, sir?

TESTIMONY OF GEORGE B. HOLDERER, FORMER EMPLOYEE OF THE DEFENSE MATERIALS PROCUREMENT AGENCY (GSA) AND FORMER MEMBER OF THE STAFF OF THE SENATE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS

Mr. HOLDERER. George B. Holderer, 3833 North Roberts Lane, Arlington, Va.

Mr. COBURN. Mr. Holderer, are you a mining engineer by education?

Mr. HOLDERER. I am.

Mr. COBURN. Have you worked in the Government service?

Mr. HOLDERER. I was with the Government during the War Production days in World War II, and afterward in the DMPA during the Korean war.

Mr. COBURN. During what period of time were you with DMPA?

Mr. HOLDERER. I would say from maybe the end of January or early February of 1951 until January of 1953.

Mr. COBURN. And during that time what were your responsibilities?

Mr. HOLDERER. I was Chief of the Division of Ferroalloys, and the ferroalloys covered chromite, manganese, and tungsten.

Mr. COBURN. Now, in that connection, what did you do with reference to the making of contracts involving metals, or ferro materials, rather, of that kind?

Mr. HOLDERER. My function was to evaluate the applications, assisted by engineers from the Bureau of Mines and the Geological Survey, and then if they were acceptable for further consideration, to refer them to the Contract Division of the DMPA.

Mr. COBURN. Do I understand you to say, then, that in those days when a contract was made under the Defense Production Act, the routine method of procedure was for the contractor to file a formal application with DMPA?

Mr. HOLDERER. That is right.

Mr. COBURN. And this application, then, with all supporting documents relative to it or all other information, came to your attention for your appraisal, did it?

Mr. HOLDERER. Correct.

Mr. COBURN. As a mining engineer?

Mr. HOLDERER. Correct.

Mr. COBURN. Now, do you recall a contract that was entered into by the Government at that time with the American Chrome Co.?

Mr. HOLDERER. I do.

Mr. COBURN. That was for the mining of a very large amount of subspecification chrome ore at a mine near Nye, Mont., was it not?

Mr. HOLDERER. That is right.

Mr. COBURN. Did you know a man by the name of E. A. Julian, who was an officer of the American Chrome Co.?

Mr. HOLDERER. I did.

Mr. COBURN. When did you first come to know him?

Mr. HOLDERER. At about the time that the application was entered in early 1951, sometime.

Mr. COBURN. Was he the president of the company?

Mr. HOLDERER. That was my understanding.

Mr. COBURN. Did you know a man by the name of Eichelberger?

Mr. HOLDERER. I did.

Mr. COBURN. When did you first come to know him?

Mr. HOLDERER. At about the same time.

Mr. COBURN. What was his first name, Fred or Frank?

Mr. HOLDERER. Frank.

Mr. COBURN. And was Mr. Eichelberger connected with the American Chrome Co.?

Mr. HOLDERER. He was rated as a consulting engineer for them.

Mr. COBURN. You did not know either one of these men, now, before the application was filed?

Mr. HOLDERER. I did not know them personally.

Mr. COBURN. By the chrome company for this contract?

Mr. HOLDERER. I did not know them personally.

Mr. COBURN. But you came to know them very well after the application was filed, did you not?

Mr. HOLDERER. I did.

Mr. COBURN. How long intervened between the time their application was filed and the contract was executed?

Mr. HOLDERER. I believe the contract was executed in April of 1952.

Senator SYMINGTON. Would you push your microphone a little closer, please?

Mr. COBURN. We are having a little trouble hearing you.

That is much better. Thank you.

Mr. HOLDERER. The contract was executed in April of 1952.

That would be about 15 or 16 months elapsed time between the time the application was filed and the contract signed.

Mr. COBURN. Now, Mr. Julian is not living now?

Mr. HOLDERER. He is dead.

Mr. COBURN. And Mr. Eichelberger is not living, either?

Mr. HOLDERER. He is dead.

Mr. COBURN. Mr. Holderer, this chromite, bought under this contract by the Government, was subspecification material, was it not?

Mr. HOLDERER. It was.

Mr. COBURN. Thirty-eight percent, it has been testified, as to the chrome content. Is that your recollection?

Mr. HOLDERER. Between 38 and 39 percent, I think.

Mr. COBURN. And the minimum grade for the stockpile at that time was 42 percent, was it not?

Mr. HOLDERER. On that order.

Mr. COBURN. Yet we paid a price of $35 a ton for this material, did we not?

Mr. HOLDERER. I think we did.

Mr. COBURN. And the testimony has been, before you came to the stand, that specification grade of chrome was selling in the market at about $27 a ton.

Mr. HOLDERER. I do not think it was selling at that time for that price.

Mr. COBURN. The testimony has been that it was. You heard Mr. Croston so testify, did you not?

Mr. HOLDERER. I did, but I would like further evidence that that was the price in 1951 and 1952.

We were in the middle of a war, the Korean war, and domestic prices, as well as world prices, for all materials skyrocketed.

Mr. COBURN. Let me ask you this:

You were a man that examined this contract carefully at the time that it was entered into.

Was the price that we paid for this sub-specification-grade chrome higher than the market price for specification-grade chrome?

Mr. HOLDERER. I would have to check figures on that. I do not remember, but my recollection is that the world price was considerably higher than $27.

Mr. COBURN. Let us not consider that. Let us think of the $35 at the time.

Mr. HOLDERER. Or the $35.

Mr. COBURN. That we paid for this low-grade chrome. Was the world price for high-grade chrome higher than that at the time?

Mr. HOLDERER. I would have to look back and see what the engineering mining journal prices were at that time. I know they were very high.

Mr. COBURN. You must have considered that, did you not, when you were considering whether this contract should be entered into?

Mr. HOLDERER. We did.

Mr. COBURN. You do not remember, then, whether this price that was paid of $35 a ton was higher or less?

Mr. HOLDERER. No, I do not.

Mr. COBURN. Than the market on high-grade chrome?

Mr. HOLDERER. I would have to check back figures on that.

Mr. COBURN. You did go into this application carefully, did you not?

Mr. HOLDERER. Very much so.

Mr. COBURN. And what was your recommendation with reference to whether it should be made?

Mr. HOLDERER. The decision came from higher up that we needed the chromite.

It was the only deposit of any consequence in the Western Hemisphere; not only this country, but I want to stress the Western Hemisphere.

We were constantly reminded that we might face a 5-year war, and that we should accumulate all the material possible, even though it was not of the highest grade.

Senator SYMINGTON. Will counsel yield?

Mr. COBURN. Certainly.

Senator SYMINGTON. April 21, 1952, mineral markets, price, 44-percent chromium oxide, $27 to $28.

Mr. HOLDERER. It is all right, then.

Mr. COBURN. That seems to have been taken from the Engineering & Mining Journal, which is the accepted means of determining market price for ores of this kind, is it not?

Mr. HOLDERER. That is apparently correct.

Mr. COBURN. And was at that time?

Mr. HOLDERER. And was at that time then.

Mr. COBURN. So that the journal shows that specification grade chrome was selling in the world market at $8 a ton less than what we paid for this chrome?

Mr. HOLDERER. That would be correct.

Mr. COBURN. All right.

Mr. HOLDERER. But our object was to develop a domestic mining industry.

Mr. COBURN. I know that you had these instructions to develop the domestic mining industry in chrome wherever possible, and that chrome was very much in need at that time.

But, having received those general, overall instructions from your superiors, that did not mean, of course, that you would just sign any kind of a contract for the purchase of chrome ore?

Mr. HOLDERER. No.

Mr. COBURN. Does it?

Mr. HOLDERER. No; it certainly did not.

Mr. COBURN. It was your obligation and duty, as a public servant, to carefully go into each one of these contracts and determine whether they should be signed in the public interest?

Mr. HOLDERER. That is right.

Mr. COBURN. Did you do that in connection with this particular contract?

Mr. HOLDERER. I did.

Mr. COBURN. How was this price of $35 a ton arrived at?

Mr. HOLDERER. That was arrived at by negotiation.

Mr. COBURN. Who suggested that price? Did you or did the other side?

Mr. HOLDERER. No; the negotiating—I had no authority to negotiate a price. I recommended that something be done with the project.

Mr. COBURN. You recommended, evidently, that $35 a ton be paid.

Mr. HOLDERER. No; I do not think I did.

Mr. COBURN. What did you recommend?

Mr. HOLDERER. I recommended that it be considered for negotiation.

Mr. COBURN. You must have given some kind of approval to this proposal of $35 a ton, did you not, Mr. Holderer?

Mr. HOLDERER. I do not believe I did. I left that to the negotiators.

Mr. COBURN. You do not believe you made any recommendation about the price?

Mr. HOLDERER. I am quite sure I made no recommendation on the price.

Mr. COBURN. Would they not want the benefit of your views on that subject, having in mind that you were a mining engineer?

Mr. HOLDERER. Only from a technical end as to whether it was feasible to operate the property.

It was up to the negotiators to get the lowest price that they could possibly get.

Mr. COBURN. The value would depend on the percentage of chrome in the ore, would it not?

Mr. HOLDERER. It would.

Mr. COBURN. And would you not have some ideas about that?

Mr. HOLDERER. We knew it was under stockpile specifications, but, nevertheless, the decision had been made to accept it.

The next step was to get it at the lowest price possible.

Mr. COBURN. What I am trying to get at is whether you had anything to do with this price that was paid of $35 a ton.

Mr. HOLDERER. I am quite sure that I did not.

Mr. COBURN. Who would have? Who did have?

Mr. HOLDERER. The chief negotiator was John Ford.

Mr. COBURN. You sat in on the negotiations, did you not?

Mr. HOLDERER. I acted as his adviser when he asked for any technical advice.

Mr. COBURN. I did not ask you that, Mr. Holderer. I say, when the negotiations ensued between the company and the negotiators, you were present and sat in on the negotiations did you not?

Mr. HOLDERER. Not all of them.

Mr. COBURN. What?

Mr. HOLDERER. Not all of them.

Mr. COBURN. But on some of them?

Mr. HOLDERER. On some of them.

Mr. COBURN. Now, when it came to discussing the question of this price, who was it that suggested this price of $35 a ton?

Mr. HOLDERER. They finally took into consideration the cost of operating, the amount of money that the Government had advanced, the amount of money that the company had advanced, and finally arrived at what was considered to be a fair profit for the company.

Mr. COBURN. Now, the company did not advance very much money in this transaction, did it?

Mr. HOLDERER. I do not know how much.

It was my understanding that the company advanced considerable money. As to how much, I do not know.

Mr. COBURN. You do not know how much yourself?

Mr. HOLDERER. No.

Mr. COBURN. We will show that.

But I think we will find, when we get to the point of how much the company put into this transaction, that it did not justify inflating the price any.

You do not remember that, though?

Mr. HOLDERER. I do not remember that.

Mr. COBURN. Now, Mr. Holderer——

Senator SYMINGTON. Will counsel yield for a question?

Mr. COBURN. Yes; certainly.

Senator SYMINGTON. $14 million had already been put in to start this mine off, before these particular negotiations started. Do you know any reason why, especially in that the Government put up the money for the machinery, there should have been a cost of $35 a ton for 38-percent chromium oxide, as against $27 for 44-percent chromium oxide?

Do you know any reason why this company should have been paid such a differential?

Mr. HOLDERER. They were entitled to an operating profit.

Senator SYMINGTON. I understand that, but I am asking you if you know any reason why they should have had a $7 increase in price when this contract was signed, for 38-percent ore?

Do you personally know?

Mr. HOLDERER. No; I do not.

Senator SYMINGTON. Thank you. Proceed.

Mr. COBURN. You say the chief negotiator was John Ford. Was he a mining engineer?

Mr. HOLDERER. No.

Mr. COBURN. He was just a man that had been in the Government a long time, was he not?

Mr. HOLDERER. I think so; yes.

Mr. COBURN. And had no special knowledge as far as mining was concerned?

Mr. HOLDERER. He was not a mining engineer.

Mr. COBURN. You do not know, then, of any reason why $35 a ton was paid for this ore, do you?

Mr. HOLDERER. It was my understanding that that was the lowest price.

Mr. COBURN. What do you mean, the "lowest price"?

Mr. HOLDERER. The lowest price at which an agreement could be reached for continuing the operation.

Mr. COBURN. You mean this company was hard to catch as far as this contract was concerned?

Mr. HOLDERER. Hard to what?

Mr. COBURN. Hard to catch.

Mr. HOLDERER. I would not say hard to catch.

Mr. COBURN. I mean—now, you remember this, Mr. Holderer, very well—was this company eager to make this contract or not?

Mr. HOLDERER. They were willing to operate the property if they got a fair operating profit out of it.

Mr. COBURN. But they were really rather indifferent about entering into this contract?

Mr. HOLDERER. Once they had gotten started and had done a great deal of work on the application, they were anxious to go ahead with it if final terms could be arrived at.

Mr. COBURN. If they were anxious to go ahead with it, then they ought not to have been hard to deal with as far as price is concerned, is that not correct?

Mr. HOLDERER. Well, I do not think they were.

Mr. COBURN. What?

Mr. HOLDERER. I do not think they were.

Mr. COBURN. You think this price of $35 is fair, then?

Mr. HOLDERER. I think it was, in view of other prices that were being paid for domestic ores.

Mr. COBURN. Mr. Holderer, during the course of the negotiations of this contract, you were in frequent touch with the officers of this company, were you not?

Mr. HOLDERER. I was.

Mr. COBURN. You talked with them on the telephone frequently?

Mr. HOLDERER. I did.

Mr. COBURN. You reported to them from your place in the Government the progress of this contract with great care, did you not?

Mr. HOLDERER. I did.

Mr. COBURN. Every time anything happened at all with reference to the movement of this contract through the DMPA, you reported to these officers by telephone; did you not?

Mr. HOLDERER. I did.

Mr. COBURN. And they frequently called you to find out how the contract was getting along?

Mr. HOLDERER. They did.

Mr. COBURN. I have here a copy of a transcript of a telephone call of October 3, 1951, between Mr. Eichelberger and you.

That, of course, was while the contract was being negotiated, was it not?

Mr. HOLDERER. It was.

Mr. COBURN. And the transcript of the call which we secured from the company files shows that this conversation occurred.

This was you:

Hello, Frank. Things are beginning to move fast, and I don't want to be away at a critical moment, since I received your telegram.

He says: "Yes." And you say:

However, I have succeeded in quietly stirring up a very considerable amount of heat on the chrome job, and, believe it or not, that thing is still in Mittendorf's office.

EICHELBERGER. I thought it had gone to RFC.

HOLDERER. Well, that was what I was told, and that is what was my understanding of it, although I think the RFC has been advised of it and has probably started a credit check, although I don't even know that.

Do you remember a conversation of that kind?

Mr. HOLDERER. I do.

Mr. COBURN. This was a conversation that you had with Mr. Eichelberger, who was in Spokane, Wash., at the time, is that right?

Mr. HOLDERER. That is right.

Mr. COBURN. And you were in Washington?

Mr. HOLDERER. I was in Washington.

Mr. COBURN. And you were reporting to him on your efforts to stir up considerable heat with reference to this contract?

Mr. HOLDERER. That is correct.

Mr. COBURN. By that you mean that you were trying in every way that you could inside the DMPA to get this contract signed?

Mr. HOLDERER. The purpose of these calls was to advise him what was going on.

My interest in the job was to proceed with it and to get around the unreasonable delays that occurred on everything in that office, delays for which there was no accounting.

Papers would lie on some man's desk for weeks, and unless something was done to get him stirred up, why, they would simply stay there.

Mr. COBURN. I have here a transcript of another telephone call, Mr. Holderer, that I would like to ask you about.

It occurred between you and Mr. Eichelberger, he in Spokane, you in Washington, in March of 1952.

The transcript shows this:

EICHELBERGER. Hello, George.

HOLDERER. Hello, Frank. I had lunch with John Ford today, and he said he would absolutely do everything that humanly could be done to get that signed contract in the mail by Monday.

And Eichelberger says:

Fine. Has it been signed, George?

You say: "Has it been signed?"

He says: "Yes."

You say: "Well, it will be."

He says: "It will be?"

You said:

But probably it will be Monday until he can actually mail it.

And he said:

They are securing the money from DMPA, that is coming along all right.

Eichelberger says: "Good, fine."

Now, that, again, was a conversation, was it, that was had between you and Mr. Eichelberger in which you were reporting your efforts to move this contract?

Mr. HOLDERER. That is correct.

Mr. COBURN. And then on March 31, 1952, this conversation between you and Eichelberger in which you said:

That contract did not get out today, as I was promised. There is still delay in actually getting ahold of the money.

EICHELBERGER. Oh, Lord, George.

HOLDERER. But everybody is just right after it and doing everything we possibly can do here. There is just some delay over at DPA.

EICHELBERGER. But there is no reason that is should not go through, is there?

HOLDERER. Oh, no, none that I can see whatsoever.

EICHELBERGER. What is the best guess on it now?

HOLDERER. Well, I don't know. It might be 2 days or it might be 3 or 4 days. If something does not happen by—I am getting this through, through John Lukens, you see, this draft. I want to get after John for this as soon as I can get to him and see what steps to take, and, if necessary, I will get Jim Douglas to work on it.

EICHELBERGER. Good for you.

That does not sound like they are very reluctant to enter into this contract, do you think. Mr. Holderer?

Mr. HOLDERER. No, I do not think that they were reluctant.

Mr. COBURN. Now, the real, solid truth about the thing is this American Chrome Co. was very eager, indeed, to make this contract, was it not?

Mr. HOLDERER. They were willing to make it. I would hesitate to say how eager they were, but they were willing to make it.

Mr. COBURN. Well, do these telephone conversations not refresh your recollection as to how eager they were?

They sound very eager to me, but maybe they do not to you.

What do you say about that?

Mr. HOLDERER. My job was to expedite this contract, expedite all contracts, and to avoid unconscionable and unreasonable delays which occurred at every turn.

Mr. COBURN. Mr. Holderer, that was your duty as far as the U.S. Government was concerned, but do you consider that to have been your duty as far as the contractor was concerned?

Mr. HOLDERER. The contractor should have been advised as to the progress of the contract.

Mr. COBURN. Yes, but did you feel it your bounden duty in the Government where you were to use every means possible at hand to get a contract through in behalf of the contractor?

Mr. HOLDERER. This contract had been okayed right along the line. The negotiations had been finished or virtually finished. There was no reason for any further delay.

I considered that in behalf of the Government it was my duty to get the job rolling. That was not the only contract where I met delays. There were delays on practically everything.

Mr. COBURN. There are other of these conversations, telephone conversations, where you are reporting to Eichelberger as to the progress of this contract.

I will not delay the proceedings today by reading all of them, but there were more that occurred as the time approached when the contract was finally signed, were there not?

Mr. HOLDERER. There were.

Mr. COBURN. Now, Mr. Holderer, you also wrote personal letters to Mr. Julian, who was the president of the company, with reference to the progress of this contract, did you not?

Mr. HOLDERER. I did.

Mr. COBURN. Letting him know as to how far this thing—how it was moving along, is that right?

Mr. HOLDERER. That is right.

Mr. COBURN. Mr. Chairman, I have here a letter that I would like to offer for the record dated October 8, 1951, from Mr. Holderer, and this one to Frank Eichelberger. It is brief and I will read it, if I may.

Senator SYMINGTON. Without objection.

Mr. COBURN. I would like to have you listen to this, Mr. Witness, and see if you remember this letter:

October 8, 1951
Dear Frank:
I have decided not to try to come out next week. I can be more useful here.

What do you mean by that, Mr. Holderer?

Had Mr. Eichelberger asked you to come out and have a look at this mining property?

Mr. HOLDERER. I had wanted to see the property, but the work at the office was of such a nature I simply did not have time to get away from the office.

Mr. COBURN. What do you mean by the sentence:

"I can be more useful here"?

Mr. HOLDERER. Because I could expedite things better in my own office than spending the time going out to see the property.

Mr. COBURN. So you wanted to stay right there and try to get this contract through, then, against other opportunities?

Mr. HOLDERER. Once the contract was considered, was under consideration, my job was to expedite it.

(The letter referred to follows:)

OCTOBER 8, 1951.

DEAR FRANK: I have decided not to try to come out next week. I can be more useful here. I am taking up the chrome job with Max Elliott, the chief counsel, next Monday to see what can be done to get some action.

There was a House Mining Committee hearing last Thursday and Engle said he expected some action out of DMPA.

I'm having another meeting Monday on the Korean deal. Will either write or phone if anything of interest develops.

The Engineer Corps colonel said he used to operate a fluorite mine in Illinois, but he doesn't talk as if he knew anything about our kind of mining.

Sincerely,

(S) GEORGE.

Mr. COBURN. And another letter dated October 20, 1951, from Mr. Holderer.

Senator SYMINGTON. You wanted to file that for the record?

Mr. COBURN. I have offered it for the record. I have read all that I think is of value.

Letter dated October 20, 1951, from Mr. Holderer to "Dear Frank," which I would like to offer for the record and read just a portion of it.

This letter states:

I have nothing definite to report for the week, except that I am putting all the pressure on your job that I can.

That, again, was a letter that you wrote to Mr. Eichelberger, was it?

Mr. HOLDERER. What date?

Mr. COBURN. October 20, 1951.

Mr. HOLDERER. Yes.

Mr. COBURN. And that, again, was reporting that you were trying to do everything you could to move this contract, is that right?

Mr. HOLDERER. That is correct.

(The letter referred to follows:)

ARLINGTON, VA., *October 20, 1951.*

DEAR FRANK: I have nothing definite to report for the week, except that I am putting all the pressure on your job that I can. I hesitate to ask you to come on and yet I think it would help a lot if you went directly to Larson and Howard Young.

Much as I would like to take a trip to get away for awhile it's not the smart thing to do at a time when new plans are being made all around. I spend most of my time now in the new offices, but have not moved yet.

Mittendorf is Acting Director of DMA and will be away for 6 weeks. He will be in San Francisco next week for the Mining Congress meeting and in Mexico City the week after for an AIME meeting. Tom Lyon will also be away all next week in San Francisco.

But the chrome job is in the hands of DMPA and the lawyers are figuring out how to set it up. So if you were here it really might speed things up. As I see it, it might not have to go to RFC, but might be handled as an advance against procurement and the rehabilitation of a former facility.

Call me up about the middle of the week in case something has developed.

Sincerely,

(S) Geo.,
GEORGE B. HOLDERER.

Mr. COBURN. Now, Mr. Holderer, the company was corresponding with GSA at this time quite a bit, was it not?

Mr. HOLDERER. I believe so.

Mr. COBURN. Writing letters back and forth about different aspects of the negotiations, is that right?

Mr. HOLDERER. That would be correct.

Mr. COBURN. As those letters were written by the company to GSA, did you receive blind copies of those letters?

Mr. HOLDERER. Sometimes.

Mr. COBURN. Where were they sent to you?

Mr. HOLDERER. To my home.

Mr. COBURN. I want to have the record show your explanation now as to why that was done because that seems to me to be a rather unusual way for things to be handled, but what was the purpose of that?

Mr. HOLDERER. There was so much delay in handling mail at the DMPA that frequently a letter would be anywhere from a week to 3 weeks before it would arrive at the desk for which it was intended.

I told a good many applicants that if they thought enough of the letter to put a special delivery stamp on it, an airmail stamp on it, that if they would airmail it to my home, I would get it before I left for the office the next morning, and then I would hand it to whomever the letter was intended.

It was simply a matter of saving time.

I not only made that suggestion to Eichelberger and Julian, but I made it to others.

I would get a special delivery letter by 7 o'clock in the morning if it had been put in the mail on the west coast the previous afternoon.

Mr. COBURN. So that was the only reason that was done?

Mr. HOLDERER. That is the only reason, sir.

Senator SYMINGTON. May I ask a question there?

Mr. COBURN. Certainly, Mr. Chairman.

Senator SYMINGTON. You mentioned a delay of 2 or 3 weeks.

If they mailed it to your office, you would have had it by 9 o'clock in the morning, would you not?

There would have been no 2 or 3 weeks' delay, would there?

Mr. HOLDERER. I have known of letters not being delivered for a long period of time.

Senator SYMINGTON. I understand that, but the difference between mailing it to your office special delivery and mailing it to your home special delivery would only have been a difference of a couple of hours.

Mr. HOLDERER. No, because if it came to the office, it would go through the mailroom. The mailroom would frequently take a long time before any letters were delivered to the proper desk.

Senator SYMINGTON. Even though it was a special delivery letter?

Mr. HOLDERER. That is correct. They paid no attention to that.

Senator SYMINGTON. How long would you say it took a special delivery letter to get to your office, on the average, after it went to the mailroom?

Mr. HOLDERER. I do not know.

I would have no means of knowing how long, but I do know that there were delays long enough so people would call up and ask me, did I receive their letter.

Mr. COBURN. Now, Mr. Holderer, this chrome that was purchased under this contract, as we have said before, was 38 percent chrome content, was it not?

Mr. HOLDERER. It was.

Mr. COBURN. At the time that this contract was entered into—that would be in April of 1952—was there then any known method of using this type of ore for any purpose?

Mr. HOLDERER. I never got into the ultimate metallurgical upgrading of it. That was not our problem.

Mr. COBURN. Well, you were the mining expert for DMPA, were you not, in considering the question of whether this contract should be made?

Were you not?

Mr. HOLDERER. I was.

Mr. COBURN. Well, would that not fall squarely, then, in your responsibility as to whether this stuff could ever be used after it was bought?

Mr. HOLDERER. A great deal, a great many minerals were bought, for which we had no immediate use, and that was one of them.

Mr. COBURN. I leave this to you, now.

You are a mining expert and I am not, but at the time that this contract was entered into, was there then any known way to use this ore?

Mr. HOLDERER. It could have been.

Mr. COBURN. It could have been?

Mr. HOLDERER. Yes.

Mr. COBURN. How could it have been?

Mr. HOLDERER. It could have been upgraded by metallurigical processes, but the upgrading was not considered at that time.

Mr. COBURN. You mean they did not consider whether it was possible to upgrade it and what the cost would be and that sort of thing when they decided to enter into this contract?

Mr. HOLDERER. The future cost of upgrading was not considered at that time by anybody.

The Government wanted the concentrates, and it was my job to see that the concentrates were accumulated.

Senator BUSH. Would you yield for just one question?

Mr. Chairman, may I ask one question?

Senator SYMINGTON. Please, Senator.

Senator BUSH. Were you satisfied in your mind that this product could be upgraded?

Mr. HOLDERER. I was.

Senator BUSH. You were?

Mr. HOLDERER. Yes.

Senator BUSH. Had it ever been done before?

Mr. HOLDERER. I do not know whether that particular product had been upgraded, but I know that it could have been used.

If we had run into World War II, we would have been very, very happy to have had that pile.

Senator BUSH. Thank you.

Mr. HOLDERER. The users, the industry would have been very happy to have had it, regardless of the grade.

Senator BUSH. You say that regardless of the fact it is still there and none of it has ever been used?

Mr. HOLDERER. We subsequently found we could get higher grade from abroad, but that was not the theory in 1951 and 1952.

The memory of sinkings during the war, 90 percent of the ships bringing chromite and manganese from South Africa were sunk, and in some months the sinkings were 100 percent. The cost per ton of ore delivered, considering all the submarines we had out, the airships we had out, the surface ships we had out to bring the few tons to port must have been an astronomical figure.

That memory was still fresh in the minds of people in 1951 and 1952. It is no longer true now.

Mr. COBURN. Now, Mr. Holderer, I want to ask you this.

Senator SYMINGTON. Will counsel yield, please?

In executive testimony counsel stated:

> He told me so this morning—

That is you, Mr. Holderer—

> that at the time this contract was entered into there was no known way of refining this into metal.

There seems to be a difference of opinion between the counsel and you.

I am reading from the executive hearing of the other day, as to what you said as against what you are testifying to today.

Did you tell Mr. Coburn that, at the time the contract was entered into, there was no known way of refining this material?

Mr. HOLDERER. I certainly did not intend to say that.

Senator SYMINGTON. That was a statement made by the counsel to the subcommittee before you came into the hearing room.

Mr. HOLDERER. Because under emergency conditions, it certainly could have been used.

Senator SYMINGTON. Thank you.

Mr. COBURN. We want to be sure of this, Mr. Holderer. I think it is right important in this hearing, and so I will ask you the question again to make sure that we get just what your recollection was of this contract when it was made.

At the time that you were negotiating this contract or participating in the negotiation of it, was there any known way then to beneficiate this ore?

Mr. HOLDERER. I believe it could have been beneficiated by metallurgical people like Union Carbide. They had ample facilities for handling a job of that kind.

Mr. COBURN. Now, Mr. Holderer, during the executive session of this committee, held the other day, I asked you this question. Do you remember it?

Mr. COBURN. Back in 1951 when you were negotiating with them for the purchase of this chrome, was there any known way then to beneficiate this ore?

You remember my asking you that question?

Mr. HOLDERER. I remember that.

Mr. COBURN. And the record shows that at that time you made this answer, and I ask you if you did:

None that I knew of and none that the American Chrome had in mind that I knew of.

Did you make that answer?

Mr. HOLDERER. I did.

Mr. COBURN. Under oath?

Mr. HOLDERER. I did.

I was not aware that the American Chrome had any plan for further beneficiation.

Mr. COBURN. But you also answered "none that I knew of"?

Mr. HOLDERER. That is correct.

Mr. COBURN. Now, which is correct, what you said then or what you say now?

Mr. HOLDERER. I say now that it could have been beneficiated by metallurgists who had the skill, people like Union Carbide, for example, or others of equal caliber.

Mr. COBURN. Mr. Holderer, why did you not tell us this in the executive session?

Mr. HOLDERER. I think I did mention Union Carbide.

Mr. COBURN. If you did, I do not recall it, but I do not want to get off on that subject.

What I want to know is why you made this answer in the executive session:

None that I knew of and none that the American Chrome had in mind that I knew of?

Mr. HOLDERER. I did not know of any way to beneficiate it because I paid no attention to the future metallurgical angle of it.

Senator SYMINGTON. You would not want the Government to buy anything that could not be used, would you?

Mr. HOLDERER. No.

Senator SYMINGTON. And it did buy a lot of material which, so far, has never been used?

Mr. HOLDERER. But during the war the Government obviously was very anxious to have that source of supply. Otherwise, they would not have——

Senator SYMINGTON. Why would the Government want to have something it could not use?

Mr. HOLDERER. We have a lot of stuff in the stockpile that requires further beneficiation.

Senator SYMINGTON. But you said you did not know how an ore of this low content, you told the executive committee, could ever be beneficiated?

Mr. HOLDERER. I am not familiar with the metallurgical beneficiation of this ore.

Senator SYMINGTON. But you were the one who was the metallurgical expert and you recommended the purchase of this material and you said you did not get into the question of price.

Mr. HOLDERER. That is right.

Senator SYMINGTON. You are a metallurgical engineer?

Mr. HOLDERER. My instructions were to get these concentrates. As to what would be done with the concentrates at a later date, that was beyond my jurisdiction.

Senator SYMINGTON. Thank you.

Mr. HOLDERER. And was not considered by anyone in the organization at that time.

Mr. COBURN. Let me ask you a little more about that, Mr. Holderer. That interests me.

Do you mean to tell me that in DMPA, when this contract was entered into, that no one, not you or anyone else, gave any consideration whatever to whether this ore could ever be used?

Mr. HOLDERER. That is my belief.

Mr. COBURN. In other words, all that was necessary, then, was for the instructions to go out that chrome was to be bought and that being the case, then you thought it was your bounden duty to do everything possible to buy chrome without regard to whether it could ever be used?

Mr. HOLDERER. The theory at that time was to stockpile labor and power in case of an emergency, to get it above ground.

Mr. COBURN. Of course, you could have stockpiled labor and power and all that sort of thing if you had just gone out and dug up a pile of dirt, could you not?

Mr. HOLDERER. This had considerably more value than a pile of dirt.

Mr. COBURN. In what respect? And, anyhow, you say you did not consider whether it had any more value than a pile of dirt, so what difference did it make whether you went out and dug a pile of dirt or dug this pile of ore?

Mr. HOLDERER. Industry could have used this is an emergency. I think that has been amply demonstrated.

Mr. COBURN. You testified before the executive committee that you knew of no way to beneficiate this ore.

Mr. HOLDERER. I knew of no actual plan, because I had never delved into the metallurgical angle of it. I am not a metallurgist.

Mr. COBURN. Did they have a metallurgist to advise them when they went into this contract?

Mr. HOLDERER. No, not that I know of.

Mr. COBURN. You mean they entered into this contract for the purchase of $31 million worth of ore and did not even have a metallurgist to advise them?

Mr. HOLDERER. That is correct.

Senator SYMINGTON. What percentage of chromium did you feel was necessary to make it different from dirt?

Mr. HOLDERER. To make what? I did not get the last word.

Senator SYMINGTON. You said you did not worry about its being 38, although nothing as low as 38 had ever been beneficiated. Would you have bought it if it were 25 percent chromium?

Mr. HOLDERER. No.

Senator SYMINGTON. Thirty percent chromium?

Mr. HOLDERER. No. I think 38 to 39 was probably the minimum percentage that would have been acceptable.

Senator SYMINGTON. What did you base that opinion on? Did you talk to a metallurgist about it?

Mr. HOLDERER. No, but we were buying small amounts from small producers at 40 percent—I think that was the figure—and it was considered that in a large-scale job of this kind, that 38 to 39 could be used if we had to use it. We would not want to use it if we had access to higher grade ores from other countries. Turkey and South Africa were a long way from home in those days.

Mr. COBURN. Mr. Holderer, I just want to make sure that we understand exactly what was in your mind at the time that you were advising the committee, I mean the DMPA, that they should enter into this contract.

I notice here that during the executive session that Senator Cannon asked you this question:

> You certainly did not expect to have a mountain of ore out there like that, that you could not ever use for any purpose, did you?

Do you remember his asking you that question?

Mr. HOLDERER. I remember that.

Mr. COBURN. In the recent hearing. And your answer:

> The contract called for 900,000 tons, with the hope that someday, somehow, somebody might be able to beneficiate it.

Mr. HOLDERER. That is right.

Mr. COBURN. That was about your viewpoint?

Mr. HOLDERER. That is correct. That was my viewpoint at that time.

Mr. COBURN. Did you tell the Government negotiators who negotiated the contract that that was your viewpoint?

Mr. HOLDERER. I did.

Mr. COLBURN. With reference to this ore?

Mr. HOLDERER. I did.

Mr. COBURN. They understood all?

Mr. HOLDERER. They understood all of that.

Mr. COBURN. And in spite of that they went right ahead and entered into this contract by which we paid over $31 million for this pile of material?

Mr. HOLDERER. The Government was willing to accept it. Our job was to expedite it.

Mr. COBURN. Can you tell us of any specific method that might have been used at that time to beneficiate this ore?

Mr. HOLDERER. No, I cannot, because I have not delved into the metallurgical angle of this thing.

Mr. COBURN. Mr. Holderer, in October of 1951 there was a hearing held by a committee of the House on this very contract, was there not?

Mr. HOLDERER. I do not recall, but there may have been.

Mr. COBURN. I have a copy of the proceedings of that hearing that was held on October 4, 1951, by the Subcommittee on Mines and Mining of the Committee on Interior and Insular Affairs of the House of Representatives. Do you remember that hearing?

Mr. HOLDERER. Very vaguely, but if that is what the record says, I will accept it.

Mr. COBURN. You appeared as a witness there, did you not, at that hearing?

Mr. HOLDERER. I probably did.

Mr. COBURN. And Senator Engle was the chairman of that committee at that time, was he not?

Mr. HOLDERER. I do not recall, but he must have been if that is what the record says.

Mr. COBURN. And the hearing was concerned with the chrome program?

Mr. HOLDERER. It was concerned with other minerals than chrome, I believe.

Mr. COBURN. But, among the other minerals, was chrome in the United States?

Mr. HOLDERER. Was chrome, that is right.

Mr. COBURN. Including this particular contract which was then under negotiation, was it not?

Mr. HOLDERER. I would assume so, if that is what the record says.

Mr. COBURN. You had a conversation with Mr. Eichelberger of the American Chrome Co. the day before this hearing was held, did you not?

Mr. HOLDERER. I probably did.

Mr. COBURN. He in Spokane and you in Washington?

Mr. HOLDERER. That is right.

Mr. COBURN. Do you remember this conversation between you and Mr. Eichelberger in that connection?

You said:

I am scheduled for a hearing tomorrow morning. Clair Engle has called a hearing, and I think chrome is going to be the subject of the hearing.

Mr. EICHELBERGER. Well, if it is, you can tell them about this, Why should they be buying a few little pounds of chrome in California when this big deposit sits and nothing doing with it?

And you said:

Yes, I will be primed on that one.

And he said:

Yes, I'll bet you.

And you said:

I'll let you know everything that is in the wind either by wire or letter stating the chances of my getting out next week.

Do you remember that conversation?

Mr. HOLDERER. I do.

Mr. COBURN. And then do you remember your testimony before the committee?

Mr. HOLDERER. I do not recall it, but proceed to read it, and I may.

Mr. COBURN. Well, the record shows that your testimony with reference to this particular contract on the day following this telephone conversation went like this:

Mr. ENGLE. Can you get a metallurgical grade of chrome out of those Montana deposits?

And your answer was:

The Mouat concentrates can be used directly by industry. There is a concern which has an electrothermic process for making high-grade metallurgical and chemical grades out of the concentrate.

Mr. ENGLE. I understand that in the Mouat operation during the last war, the highest grade concentrate obtained was 38 percent chromic oxide.

Mr. HOLDERER. That is correct, but with new developments in metallurgy, it appears possible that it might be raised to 42 percent, which makes it available for certain industrial uses as it stands. By further chemical treatment which can be done at not too great cost, it can be raised to practically any degree that is desired or necessary, but it is the one outstanding, great source of chrome in this country and would make us partially self-sufficient.

Mr. ENGLE. You say there are additional processes now available to improve the process used during the last war?

Mr. HOLDERER. Yes, sir. It will raise the grade of that concentrate from about 38 to probably 42, and that is through the use of equipment which was not available during the war.

Mr. ENGLE. Is that a new or secret process?

Mr. HOLDERER. A new process.

Mr. ENGLE. Who has that process?

Mr. HOLDERER. Well, it is called the sink float or heavy medium process. It is a process that has been developed by the American Cyanamid Co. called sink float. It is just another new addition to the metallurgy which has been developed during the past 5 or 6 years.

Do you remember testifying in that wise?

Mr. HOLDERER. I do not recall that, but if that is what the record says, why, I would accept it.

Mr. COBURN. Well, you were certainly testifying like you were a metallurgist that day.

Mr. HOLDERER. I was not a metallurgist, nor did I ever begin to be one.

Mr. COBURN. Well, you were giving testimony as an expert in metallurgy on that day, were you not?

Mr. HOLDERER. Apparently.

Mr. COBURN. You went a long way to get this contract for this contractor, did you not?

Mr. HOLDERER. I put all the energy that I had behind it to get it through.

Mr. COBURN. You seem to have known more about the methods that might be used to beneficiate this ore when you testified before Senator Engle's committee than you did when you advised the Government with reference to entering into this contract, is that right?

Mr. HOLDERER. I think that any information I would have had would have been available to everyone else. It would have been available to the negotiators.

Mr. COBURN. You do not even mention any Union Carbide method of beneficiating this ore before this committee, do you?

Mr. HOLDERER. They are the outstanding metallurgists of the country, if not of the world, and I know they could do it if they wanted to.

Senator SYMINGTON. Excuse me, Counsel, you mentioned American Cyanamid.

Was that a mistake on your part?

Mr. HOLDERER. That what?

Senator SYMINGTON. The company you mentioned was American Cyanamid.

Mr. HOLDERER. American Cyanamid, yes.

Senator SYMINGTON. Why did you not mention Union Carbide?

Mr. HOLDERER. I do not know.

Senator SYMINGTON. This morning you told us that the company that could handle the ore was Union Carbide, but in that testimony you said the company that could handle this ore was American Cyanamid. Now, which company was it?

Mr. HOLDERER. I did not mention Cyanamid now because I have not even thought of it.

Senator SYMINGTON. Yes, but at that time you thought that was the company.

Was that a mistake or could both companies do it, in your opinion?

Mr. HOLDERER. I think both companies could do it, Senator.

Senator SYMINGTON. I see. Thank you.

Mr. HOLDERER. And the ore at the mine could have been turned out at a higher grade, but at a lesser amount.

Senator SYMINGTON. When you testified in answer to the question of Senator Cannon in executive session the other day, you did not know of any company that could do it.

This morning, first, you say you felt, although you did not know for sure, that the Union Carbide Co. could do it; then counsel read you testimony where you go into detail as to how the American Cyanamid Co. could do it, could beneficiate this ore.

Now, just for the record, what really is your position?

Mr. HOLDERER. I imagine that that ore, I believe that that ore can be upgraded.

As to exactly what process would be used, I do not know.

Senator SYMINGTON. Thank you.

Mr. HOLDERER. I do know that the company had carried on considerable research work, and had determined that it could be upgraded very, very considerably.

Mr. COBURN. By the "company," to whom are you referring now, the American Chrome Co.?

Mr. HOLDERER. American Chrome.

Mr. COBURN. And you were quite willing to accept their statement on that subject without really knowing anything about it?

Mr. HOLDERER. We never even discussed future upgrading.

Mr. COBURN. At the time that you entered into this contract?

Mr. HOLDERER. At the time that we entered into that contract.

Mr. COBURN. The subject was never discussed in DMPA?

Mr. HOLDERER. The subject was never discussed.

I did not know whether the company would ever attempt to further upgrade that or not.

Mr. COBURN. Or anyone else?

Mr. HOLDERER. Or anyone else. My orders were to get the concentrate.

Mr. COBURN. All right, Mr. Witness.

At that time, that is, when this contract was being negotiated, was there a man in the DMPA by the name of John Lukens?

Mr. HOLDERER. There was.

Mr. COBURN. What is his full name, by the way?

Mr. HOLDERER. John Lukens.

Mr. COBURN. That is all you know is John Lukens. What were his responsibilities in DMPA at that time?

Mr. HOLDERER. I do not know exactly. It was my belief that he was in the Auditing Division.

Mr. COBURN. He was an accountant, was he?

Mr. HOLDERER. An accountant.

Mr. COBURN. And were his duties those that required him to check a contract that was under negotiation to advise DMPA as to whether it should be entered into from a financial standpoint?

Mr. HOLDERER. I believe that was part of his work.

Mr. COBURN. He participated with you in the study of this American Chrome Co. contract, did he not?

Mr. HOLDERER. I believe he did.

Mr. COBURN. And all the supporting documents?

Mr. HOLDERER. I believe he did.

Senator SYMINGTON. You do not "believe" he did. You know either he did or he did not.

Mr. HOLDERER. All right, I know he did.

Senator SYMINGTON. Yes.

Mr. COBURN. And you dealt with him frequently at that time, did you not?

Mr. HOLDERER. I did.

Mr. COBURN. In connection with this contract?

Mr. HOLDERER. I did.

Mr. COBURN. You got to know him very well?

Mr. HOLDERER. I did.

Mr. COBURN. Had Mr. Lukens been in the Government service for some time before that?

Mr. HOLDERER. I believe so.

Mr. COBURN. Had you ever discussed with him the possibility of his leaving the Government service and going to work for some business concern?

Mr. HOLDERER. I think I did.

Mr. COBURN. On many occasions or not?

Mr. HOLDERER. I would not say "many." I would say "some."

Mr. COBURN. How long had he been with you in DMPA when this contract, when the negotiations started? Had it been some time before that?

Mr. HOLDERER. No. I had had no contact with him that I can recall before the application came in.

Mr. COBURN. And that would be January 3, 1951?

Mr. HOLDERER. That is correct.

Mr. COBURN. But after that time, did you discuss with him on some occasions his desire to get out of Government and go to work for some business concern?

Mr. HOLDERER. I suggested to him that it would be desirable for him to get into industry, if he could.

Mr. COBURN. What was his feeling about the matter, is what I am trying to get.

Mr. HOLDERER. Well, he expressed no particular viewpoint on that. He was rather fed up with Government work.

Mr. COBURN. Is it not a fact that you told us that for some time before this contract was signed, that he had wanted to get out of the Government and go to work for some business concern?

Mr. HOLDERER. That is correct.

Mr. COBURN. Now, after this contract was under negotiation, did you have any discussions with either Mr. Julian, the president of the American Chrome Co., or Mr. Eichelberger, their consulting engineer, as to Mr. Lukens going to work for the company?

Mr. HOLDERER. Mr. Eichelberger, when it was obvious that the contract would be signed and that the project would proceed, the company was in need of a bookkeeper and also a comptroller, and Mr. Eichelberger asked me if I had any suggestions as to who might make a good comptroller for that job.

I mentioned Mr. Lukens' name, and he was rather taken aback.

He says:

Well, why do you make that suggestion since he has been so tough on us?

I said:

Because I respect his integrity; I respect his ability. He has been tough on you. If he should go to work for you, you would get equally good, honest service out of him as he has given the Government.

Mr. COBURN. Was this before the contract was signed on April 21, 1952?

Mr. HOLDERER. I would say that it was.

Mr. COBURN. As a matter of fact, you even suggested to Mr. Eichelberger eventually what salary should be paid Mr. Lukens when he went to work for the American Chrome Co.; did you not?

Mr. HOLDERER. I did.

Mr. COBURN. What salary was that, so that we will have the whole story?

Mr. HOLDERER. I had no knowledge of what Mr. Lukens was getting from the Government, but I thought that that job would be worth at least $12,000 a year.

Mr. COBURN. And you told Mr. Eichelberger that?

Mr. HOLDERER. I told Mr. Eichelberger that.

Senator SYMINGTON. And that time was Mr. Lukens working with you on this contract?

Mr. HOLDERER. Well, the contract had been, all the details of the contract were out of the way.

It merely required signatures from the topside.

Senator SYMINGTON. At that time were you working, according to these records, to get the contract signed?

Mr. HOLDERER. Pardon?

Senator SYMINGTON. At that time were you working, as these records would appear to show, to get the contract signed?

Mr. HOLDERER. At that time I was working to get the signatures of the topside in the organization there.

I had three signatures to get: Mr. Lyon, Mr. Young, and Mr. Jess Larson.

Mr. COBURN. Mr. Witness, I want to refer again to this telephone conversation that you had with Mr. Eichelberger out in Spokane while you were in Washington in March of 1952, and the transcript of the telephone conversation indicates that not only you were on the telephone and Mr. Eichelberger, but Mr. Lukens as well.

The conversation went in this wise at the end of the conversation:

EICHELBERGER. Have you gotten ready to go, John?

Who was he referring to there?

Mr. HOLDERER. I imagine he must have been referring to John Lukens, since Lukens was on the telephone.

Mr. COBURN (reading):

LUKENS. I am all ready to go as soon as we get this thing lined up.
EICHELBERGER. Attaboy. Your wife has not backed out?
LUKENS. Oh, no, she won't back out. We are just twiddling our thumbs trying to get these jobs done so we can get on the ball.

Do you recall that conversation?

Mr. HOLDERER. I do.

Mr. COBURN. It sounds as if Mr. Lukens was remaining on the job here until this contract was signed. Is that a fact?

Mr. HOLDERER. He could have had the privilege of resigning at any time.

I think he felt it his duty to stay with it until it was completed.

Mr. COBURN. That is your construction of that conversation?

Mr. HOLDERER. That is my construction of that.

Mr. COBURN. I also refer to a telephone conversation here of March 31, 1951, between Mr. Eichelberger in Spokane and you in Washington where the transcript shows this:

Mr. HOLDERER. I thought it might be desirable for Lukens to go out there, certainly to see you in Spokane or to see Jule in San Francisco.

Who was "Jule"?

Mr. HOLDERER. Mr. Julian.

Mr. COBURN. President of the company?

Mr. HOLDERER. That is right.

Mr. COBURN (reading):

I don't know that too much would be gained by his going to the mine.
EICHELBERGER. It is on his way, you know, if he comes.
HOLDERER. It is on his way. I told him, without having any authority to do so, that any expense that would be involved could be taken care of on his expense account afterward.

Do you mean to say there in your conversation with Mr. Eichelberger that you told Mr. Julian that if he went out there, out West, that any expense involved would be taken care of by the company after he went to work for the company, even though he was then working for the Government? Was that the conversation?

Mr. HOLDERER. That would be correct. I would not expect the Government to pay it.

Mr. COBURN. Was that done, do you know?

Mr. HOLDERER. I do not know.

Mr. COBURN. Eichelberger says:

Yes.
HOLDERER. But for various reasons, I do not believe it would be too smart for me to show my hand until I am out of here.

What do you mean by that?

Mr. HOLDERER. I was contemplating leaving, getting out of the DMPA.

I was pretty well fed up with it, but I wanted to stay with it until this job was finished.

Mr. COBURN. And did you leave the DMPA?

Mr. HOLDERER. Eventually I left the DMPA in the succeeding January, or January of 1953.

Mr. COBURN. After the contract had been signed?

Mr. HOLDERER. That is correct.

Mr. COBURN. What do you mean by this statement in here?

I do not believe it would be too smart for me to show my hand.

What were you referring to there, Mr. Holderer?

Mr. HOLDERER. I cannot explain that other than that I did not want to give all the details to everybody in the corridor.

Senator SYMINGTON. Everybody in the what?

Mr. HOLDERER. Give the details of this job to everybody in the corridor.

Senator SYMINGTON. Why not?

Mr. HOLDERER. It was not any of their business.

My contacts were solely with Mr. Lyon, Mr. Douglas until he left, and with Mr. Young.

I explained everything in detail at all times to Mr. Lyon; everything I did met with his approval.

Senator SYMINGTON. Are you saying that the fact that you did not want to tell people in the corridor where you were working was what you meant when you spoke to Mr. Julian on the telephone and said you did not want to disclose your hand?

Mr. HOLDERER. It was common practice for people to snoop and listen in on everything they could get and make whatever they could make out of it.

Senator SYMINGTON. Why would they be snooping on this contract?

Was there anything wrong with it?

Mr. HOLDERER. No, but they were snooping on all conversations that they could pick up.

Senator SYMINGTON. That is not disclosing your hand. I do not quite get how you correlate that thought with your statement about disclosing your hand.

Mr. HOLDERER. Well, I do not know.

Senator SYMINGTON. Could it be that there was somebody, and I say this after having read some of these conversations, that you did not want to know the nature of this deal?

Mr. HOLDERER. No, because there was not anybody that I was worried about.

The deal had been consummated, virtually.

Senator SYMINGTON. You said you were worried about the people in the corridor knowing about the deal?

Mr. HOLDERER. There were quite a few people in the corridor who listened in on everything they could get.

Senator SYMINGTON. Now, let us be frank, Mr. Holderer. You are under oath here, and we are trying to get information. The truth is you were working actively for this contractor, to get him the contract; but you did not want people around you to know what you were doing?

Mr. HOLDERER. I was only concerned with the chief negotiator, my immediate superior, Mr. Lyon. I had no—there was no reason why I should give any information of any kind to anybody else.

Senator SYMINGTON. So when you were talking about disclosing your hand, it referred to the people around you who were your subordinates.

You were not talking about people above you?

Mr. HOLDERER. No. I discussed every detail of this contract, as well as other contracts, with Mr. Lyon.

Senator BUSH. Will the Senator yield there?

Senator SYMINGTON. Just one question:

Did you discuss with him the fact that you were promoting Mr. Lukens for this job with this company?

Mr. HOLDERER. I did.

Senator SYMINGTON. With Mr. Lyon?

Mr. HOLDERER. I did.

Senator SYMINGTON. Did you discuss that with Mr. Ford?

Mr. HOLDERER. I did.

Senator SYMINGTON. I yield to the Senator from Connecticut.

Senator BUSH. This business of not disclosing your hand, I am not quite clear what it was that you did not want to disclose.

Was it that you did not wish to disclose that you were going to leave the Government?

Is that what was in your——

Mr. HOLDERER. I have no explanation for that phrase.

Senator BUSH. You cannot explain it now?

Mr. HOLDERER. No.

Senator BUSH. It is very hard for us to understand it, if you cannot explain it.

Mr. COBURN. Mr. Holderer, I have here a telephone conservation that occurred between you and Mr. Eichelberger out in Spokane on April 8, 1952, which, of course, was before the contract was signed, was it not?

Mr. HOLDERER. Correct.

Mr. COBURN. And the conversation went in this way:

Mr. EICHELBERGER. Tell me something. Just what kind of letter did Lukens have? It was a long conversation, and I didn't get just what John wanted, because on the 'phone he talks so damn low.

HOLDERER. He wants some sort of agreement that would protect him for a year or two at least.

EICHELBERGER. Oh, I see. Just an employment agreement?

HOLDERER. Yes, because, after all, he is dealing with a company that he does not know. There might be some changes in the company, and they might have their own ideas as to what they want in there.

EICHELBERGER. I see. Well, I will be talking to Jule, and, in fact, I'll write him this and tell him what he wants. I couldn't get it over the 'phone very well because he talks so damn low it's hard to hear.

HOLDERER. He was afraid that somebody out in the hall would hear.

Mr. HOLDERER. That is correct.

Mr. COBURN (reading):

EICHELBERGER. I see.

Now, that conversation evidently had to do with Mr. Lukens going to work for the company; is that not right?

Mr. HOLDERER. That is correct.

Mr. COBURN. And it shows that they were getting down to something in the nature of a final agreement on the subject?

Mr. HOLDERER. I believe——

Mr. COBURN. By that time?

Mr. HOLDERER. I believe a letter of intent had even been signed.

Mr. COBURN. A letter of intent had been signed at that time?

Mr. HOLDERER. I believe so.

Mr. COBURN. Did you see the letter of intent?

Mr. HOLDERER. I do not recall it, but I must have seen it, but I do not recall it.

Mr. COBURN. How do you happen to mention it, then?

Mr. HOLDERER. Because I knew what the procedure was.

Mr. COBURN. In a case of that kind?

Mr. HOLDERER. A letter of intent would always be sent out before a final——

Mr. COBURN. Oh, I misunderstood you. Perhaps other people did, too, Mr. Holderer.

I thought you were talking about a letter of intent between Mr. Lukens and the chrome company.

Mr. HOLDERER. No.

Mr. COBURN. You do not mean that?

Mr. HOLDERER. I do not mean that. I mean the letter of intent——

Mr. COBURN. You mean the letter of intent between the Government and the company on this?

Mr. HOLDERER. That is correct.

Mr. COBURN. On this particular ore pile; is that it?

Mr. HOLDERER. That is correct.

Mr. COBURN. But you are not sure whether that had been done?

Mr. HOLDERER. I was under the impression that that letter of intent had gone out by that date.

Mr. COBURN. So that we will all understand the letter of intent, a letter of intent is simply a preliminary agreement that the parties will make a contract, but the details are not in the letter of intent, is that not right?

Mr. HOLDERER. That is correct.

Mr. COBURN. All the details of the contract are then negotiated and placed in a definitive contract later?

Mr. HOLDERER. That is correct.

Mr. COBURN. Is that it?

Mr. HOLDERER. That is correct.

Mr. COBURN. Was that the practice in DMPA at that time?

Mr. HOLDERER. That was the practice.

Mr. COBURN. All right.

Now, to return to this telephone conversation; as I say, it was obvious that they were getting down to the details of the employment agreement between Mr. Lukens and the company; is that not right?

Mr. HOLDERER. That is correct.

Mr. COBURN. Again you say here:

"He"—meaning Lukens—"was afraid that somebody out in the hall would hear."

What were you referring to there?

Mr. HOLDERER. Because it was exactly that. I was told many times that when I was on the telephone, everybody in the corridor could hear what I was talking about.

Mr. COBURN. I am wondering whether you were referring to Mr. Lukens not wanting anybody to know that he was going to work for the company at that time.

Is that what you meant by that statement?

Mr. HOLDERER. Well, he obviously would not have been interested in publishing that fact.

Senator SYMINGTON. Why not?

Mr. HOLDERER. Nobody else's business.

Our superiors were aware of it, and that was enough. No reason why a casual snooper should know it, and there were plenty of casual snoopers. There always are in these Government offices.

Senator ENGLE. Can you remember any of those names of those snoopers?

Mr. HOLDERER. No, I do not.

Senator ENGLE. There is one lawyer down there you had an awfully hard time with, was there not?

Mr. HOLDERER. Pardon?

Senator ENGLE. There was one lawyer down there you had an awfully hard time with?

Mr. HOLDERER. Either a lawyer or accountant or somebody. He was an obstructionist, and did everything possible to obstruct every application that came his way. I frequently had to go pretty high up to override him.

Senator SYMINGTON. We have been going quite a little time.

Senator Engle, have you any questions?

Senator ENGLE. I think not.

Senator SYMINGTON. Senator Bush?

Senator BUSH. Yes, Mr. Chairman.

You mentioned, back there, that you had orders from above to go ahead and make this contract regardless of the cost or regardless of anything else; is that right? Do you recall that?

Mr. HOLDERER. I do.

Senator BUSH. And who was in this echelon above that had the authority to give you that kind of a blanket signal to go ahead?

Mr. HOLDERER. I would say that it probably emanated from Jess Larson, through Howard Young, through Jim Douglas, filtered down to me through Tom Lyon.

Senator BUSH. Who was Mr. Larson?

Mr. HOLDERER. He was Administrator of GSA.

Senator BUSH. And who was Mr. Howard Young?

Mr. HOLDERER. Deputy Administrator; the Deputy is lower than Judge Larson, but in charge of DMPA.

Senator BUSH. Are these men living now, do you know?

Mr. HOLDERER. As far as I know; yes. I think Larson is living, and I believe, I am quite sure that Young is living. Mr. Lyon is not.

Senator BUSH. With this responsibility that they placed upon you, what sort of a check did you make on the American Chrome Co. to satisfy yourself that this was a competent, responsible organization, worthy of having this kind of a contract with the Government?

Mr. HOLDERER. I knew that both Mr. Eichelberger and Mr. Julian were competent engineers.

Senator BUSH. How did you know it?

Mr. HOLDERER. Through friends who knew them. I did not know them personally at that time.

Senator BUSH. Did you check their——

Mr. HOLDERER. I did not know them personally previous to that time.

Senator BUSH. Did you check their commercial-professional standing, or whatever their standing might be?

Mr. HOLDERER. I checked their professional standing, but I did not check their commercial standing.

Senator BUSH. You did check their professional standing?

Mr. HOLDERER. Yes, through mutual friends.

Senator BUSH. And you were satisfied that they had adequate background and experience and success to undertake this big job for the Government?

Mr. HOLDERER. I was thoroughly satisfied, and the way they drew up this application convinced me that they were competent.

Senator BUSH. What happened to the American Chrome Co., do you know? Is it still in business?

Mr. HOLDERER. Well, the mine is shut down.

I do not know, because I have had no contact with the company since that time.

Senator BUSH. How long did they operate on this contract?

Mr. HOLDERER. According to Mr. Croston, they operated until 1961.

Senator BUSH. 1961.

Mr. HOLDERER. But I had no contact with the company after I left DMPA.

When I was on the Senate Interior Committee, both Mr. Eichelberger and Mr. Julian, when they were in town, would call on me.

I would see them occasionally at great intervals.

Senator BUSH. One more question I would like to ask, and I am still confused about this.

You stated to us several times that when this contract was entered into, there was no known method of using this 38-percent ore; that it could not be beneficiated; that there was not any way to do it. There was no known method at that time.

Yet, we hear from the quoted record before Mr. Engle, back in the autumn of 1951, a positive statement by yourself also that there was a way to do it.

Mr. HOLDERER. Well, I believed that it could be done.

Senator BUSH. I beg your pardon?

Mr. HOLDERER. I believed at that time, and I still believe, that it could be done.

Senator BUSH. But you have told us repeatedly that it could not be done.

Mr. HOLDERER. Well, I——

Senator BUSH. I cannot reconcile these two statements.

Mr. HOLDERER. I do not mean to say that it could not be done. I do not mean to say that now.

I did not mean to say that it could not be done at that time.

Senator ENGLE. Will the Senator yield to me to read another piece of this record?

Senator BUSH. Yes.

Senator ENGLE. On page 638 of this record previously referred to by counsel, you make the following statement, Mr. Holderer, and it follows up the line that you mentioned:

Mr. HOLDERER. As far as I know, General Services Administration is not encouraging the purchase of anything they cannot sell. A great deal of pressure has been put on the Defense Minerals Administration to approve purchases of very low grade stuff for which there is no conceivable use, and I am glad to

know that the Defense Minerals Administration and the General Services Administration have resisted the pressure.

Mr. ENGLE. I hope they continue to resist it. I see no reason in the world for putting stuff in the stockpiles that cannot be used, and that is why I was asking about this 42-percent ore.

Mr. HOLDERER. They will not usually buy low-grade ore, and we have had to assure these people that they can use the Mouat concentrates. Timmons says he can take 7,000 tons a month, and probably more, if he expands his operation. That is only under the present operation, and that is of the concentrates from this Stillwater deposit which can be used.

Mr. HOLDERER. Now, I have not even thought——

Senator ENGLE. Do you recall that testimony?

Mr. HOLDERER. Yes.

I have not even thought of the name of Timmons since that time, but a man by the name of Timmons, a Canadian, and he was quite a successful businessman, I think a successful metallurgist, stated that he could use the ore and would use the ore.

Now, as to what he ever did subsequently in demonstrating that he could, I do not know. I have lost all contact.

Senator BUSH. I have no more questions, Mr. Chairman. I am still confused about this.

Senator SYMINGTON. Mr. Counsel?

Mr. COBURN. Mr. Holderer, there are one or two things more I want to ask you.

After the contract was entered into, then the DMPA still continued to have close relations with the contractor, did it not?

It kept in close touch with them as the contract was performed?

Mr. HOLDERER. Not to any extent.

Mr. COBURN. To refresh your recollection here, is it not a fact that after the contract was entered into, then all the fixed costs that the contractor incurred in fixing this mine ready to use had to be accounted for to the DMPA; is that right?

Mr. HOLDERER. That is correct.

Mr. COBURN. All those fixed costs had to be reported?

Mr. HOLDERER. Yes; that is correct.

Mr. COBURN. And they had to be passed on by the DMPA; approved?

Mr. HOLDERER. That is correct.

Mr. COBURN. And that was the kind of a job, of course, that Mr. Lukens did, was it not?

Mr. HOLDERER. That what?

Mr. COBURN. Mr. Lukens did that sort of thing, did he not, as an accountant?

He passed on those fixed-cost items, approved them, or disapproved them?

Mr. HOLDERER. I do not know.

I think I probably had more to do with that than he did. When I said "not to any extent," I was thinking ahead when the mine was in operation.

It was my job to approve their bills of equipment and to look over their flowsheets and things of that kind.

Mr. COBURN. I have here a letter of April 17, 1952, written by you to "Dear Jule," who, I suppose, is Julian, the president of the American Chrome Co. Right?

Mr. HOLDERER. That is right.

Mr. COBURN. In which you say here that—

Every item that enters into its fixed cost must be accounted for: engineering, drafting, travel, telephones, accounting, transportation, and every item of expense, in addition to the f.o.b. price or the contractor's price right up to the time that the tram is in operation.

You are referring to a tram there. Do you remember that?

Mr. HOLDERER. Yes, I do.

Mr. COBURN. That is correct, is it not?

Mr. HOLDERER. That is correct.

Mr. COBURN. You say in this letter:

After John and I talked to you this afternoon, he began to wonder if you understood fully the scope of all the items that are properly chargeable to the valuation of the bills of material and equipment.

So you were advising Jule that he shoud be careful and account for all of these items; is that right?

Mr. HOLDERER. That is correct.

Mr. COBURN. Then you say:

The fiscal boys are throwing the books at Westmoreland, making their work just as burdensome as possible, but John is going to try to not to let this be the pattern for American Chrome.

Now, the Westmoreland contract is another contract entirely, is it not?

Mr. HOLDERER. That has nothing to do with this whatsoever.

Mr. COBURN. Involving the purchase of tungsten?

Mr. HOLDERER. It involved the purchase of manganese.

Mr. COBURN. Manganese; I beg your pardon.

And you say:

The fiscal boys are throwing the books at Westmoreland.

What do you mean by that?

Mr. HOLDERER. By making it—by being as obstructionist as possible.

Mr. COBURN. What do you mean, "by being as obstructionist as possible"?

Mr. HOLDERER. Well, delaying it at every turn.

Mr. COBURN. You mean delaying the approval of the items of cost that were submitted by Westmoreland?

Mr. HOLDERER. Delaying, finding an excuse for delaying, the consideration of it, to just delay the whole project.

Mr. COBURN. Do you mean to say they were doing that deliberately?

Mr. HOLDERER. I think they were. They did it on a number of projects.

Mr. COBURN. Why would they do it deliberately?

Mr. HOLDERER. Because they probably were looking to make a life career out of the job.

Mr. COBURN. Did you have the feeling that those items, when they came in, should simply be approved just out of hand without being checked into?

Mr. HOLDERER. They would not have known anything about these mining items. They knew nothing about mining.

Mr. COBURN. What do you mean by this:

But John is going to try not to let this be a pattern for American Chrome.

Who is "John"?

Mr. HOLDERER. I do not know whether that was John Lukens or John Ford. It could have been either one. I would say John Ford possibly.

Mr. COBURN. Well, let me see whether that was John Ford.

Mr. HOLDERER. I do not know. Read further.

Mr. COBURN. I think the next sentence will clear that up.

It reads:

This may require his staying here for 1 or even 2 months.

Mr. HOLDERER. That would have referred to John Lukens, then.

Mr. COBURN. That had to refer to John Lukens?

Mr. HOLDERER. Yes.

Mr. COBURN. Because he was leaving shortly, was he not?

Mr. HOLDERER. That is correct.

Mr. COBURN. To go to work for the American Chrome Co.?

Mr. HOLDERER. That is correct.

Mr. COBURN. Do I understand you, then, that you say that John was resolved to pass these items as they came in here from the American Chrome Co., these items of expense?

He was not going to have any delay with reference to the approval of their items of expense?

Mr. HOLDERER. Well, he did not want any delay in approving them. He certainly delved into them, looked into them.

Mr. COBURN. Did you talk with him about approving those items of expense?

Mr. HOLDERER. I probably did and asked——

Mr. COBURN. You must have because you were writing Jule about it.

Mr. HOLDERER. I must have because I did not want any undue delay at that point.

Mr. COBURN. And he agreed to that, did he?

Mr. HOLDERER. I think he did probably.

Senator SYMINGTON. If counsel will yield, did you consider the propriety of working with Mr. Lukens to get him a job with this company, even recommending the salary, at the same time Mr. Lukens was approving the expenses of the company in question?

Mr. HOLDERER. I do not think propriety was involved there.

We were not—he would not certainly, he certainly would not have approved anything that seemed to be improper, but it was necessary, it was necessary for somebody to approve all the items and to check them over and see——

Senator SYMINGTON. When a person is in business, they are in business trying to make money for their stockholders; and certainly that is right and proper. But when they are in Government, they cannot be working both sides of the fence.

They cannot be working for the Government at the same time they are working for the contractor.

Inasmuch as you have admitted these conversations, it is clear that you were working for the Government and also, at the same time, were working for the contractor. Apparently without the contract there was not much of a company.

Do you think it was right for him to be the person auditing the expenses of the company at the same time he was working to get a job with the same company?

Mr. HOLDERER. I do not believe that he was the only one who had to check these expenses.

Senator SYMINGTON. Do you think it was right for him to approve the expenses of the company?

Mr. HOLDERER. I made no distinction there. I believed in his integrity.

Senator SYMINGTON. I am not questioning that. I am questioning the way one functions in this relationship, private business and Government.

Mr. HOLDERER. All right.

It probably was not good propriety.

Senator SYMINGTON. That is what I was trying to find out; how you thought about it.

Mr. HOLDERER. Not being a Government career man, I carried on my job as if I was in private industry, and that was to get the job done, and I had in view at all times trying to get the job done at the least cost and the best way for the purposes of the Government.

Senator SYMINGTON. I think you are unfair there. There are many career men who are dedicated to doing a good job in Government, and who have done over a period of many years a magnificent job. They would never have had the same type and character of relationship with contractors you had with this American Chrome Co.

You are unfair to the average Government servant, the way you put it.

Senator Engle?

Senator ENGLE. No.

My only comment is, when the witness says it might have been improper, I think it ought to be in the law, and we have done that since in many cases.

We do not let people sit in Government and have a contract or an agreement to go to work with a company with which they are dealing.

If it is not illegal, it ought to be made illegal.

Senator SYMINGTON. I think the rule is in the Department of Defense that you have to be out for at least 2 years before you can negotiate with a company.

Mr. Counsel, proceed.

Mr. COBURN. Mr. Holderer, this letter of April 17, 1952, which, incidentally, Mr. Chairman, I have not offered for the record, and I would like to do it.

Senator SYMINGTON. Without objection.

(The letter referred to follows:)

ARLINGTON, VA., *April 17, 1952.*

DEAR JULIE: After John and I talked to you this afternoon he began to wonder if you understood fully the scope of all the items that are properly chargeable to the valuation of the bills of material and equipment.

Take the tram for example. Every item that enters into its fixed costs must be accounted for—engineering, drafting, travel, phones, accounting, transportation, and every item of expense in addition to the f.o.b. price or the contractor's price right up to the time the tram is in operation. Since this is an item supplied by the Government all these details are part of the final cost and should come out of Government funds and not company funds. You can see from this that a lot of accounting and cost keeping is going to be needed and it should start with the first nickel that is spent after the contract becomes effective.

The fiscal boys are throwing the books at Westmoreland making their work just as burdensome as possible, but John is going to try not to let this be a pattern for American Chrome. This may require his staying here for 1 or even 2 months.

But he still believes Costello should get out on the job. His pay and travel expenses are part of the capital expense of all the part furnished by the Government. So are yours when you and Frank visit the mine next week.

John suggests you write a letter to Ford (inclose it with the returning contract if you wish) and ask for guidance in the way he [Ford] would like to have statements made up, flowsheets on progress reports, etc. This will then give John an opportunity to discuss the whole accounting procedure with the fiscal boys, so later they can't say you didn't ask for instructions. Be sure to send me a copy of your letter to my home, of course.

After spending half the afternoon trying to trace the letter that was supposed to have gone to Anaconda requesting release of the records, I finally found it in the legal division where it had been lying since last Tuesday without getting attention. I now have it in my possession and will have it signed by Lyon (who is acting for Young for a few days) in the morning and get it into the mail. Cornell then mailed you a copy this afternoon. It was sent to McShane at Butte.

The Butte mill deal is moving thanks to Griswald having been here which saved a lot of phoning and correspondence. I fail to see how anything gets done around here without personal attention. I guess the answer is simple—it doesn't.

Sincerely,

(S) Geo.,
GEORGE B. HOLDERER.

Mr. COBURN. This letter of April 17, 1952, was written by you to Mr. Julian just a few days before the contract was finally signed, is that not correct?

Mr. HOLDERER. That is correct.

Mr. COBURN. And it is also a fact, is it not, that when the contractor began to perform the contract, that much the greater part of the items of expense that had to be audited by the Government under the contract were incurred by the contractor very early in the contract, is that right?

Mr. HOLDERER. That is correct.

Mr. COBURN. And that is what you are referring to where you say that: "John is going to try not to let this be a pattern for American Chrome," is it not?

Mr. HOLDERER. That is right.

Mr. COBURN. And then you say:

This may require his staying here for 1 or even 2 months.

Had you talked with Mr. Lukens about staying on the job long enough to approve these expenses for the American Chrome?

Mr. HOLDERER. I probably did, as he was more familiar with that phase than anyone else.

Mr. COBURN. And that it would be wise for him to stay there on the job until those items had been approved before he went to work for the American Chrome?

Mr. HOLDERER. To avoid any further delay in getting the job rolling.

Mr. COBURN. All right, Mr. Holderer. Now, one thing more:

If you look at these pictures over here that we have, do you see that light, filmy stuff blowing or rather rising from the side of the ore pile?

Mr. HOLDERER. Yes.

Mr. COBURN. What is that, Mr. Holderer?

Mr. HOLDERER. That may be road dust; it may be snow. It looks like snow, from the bottom of the picture there.

Mr. COBURN. Let me see. I am not sure I quite understood you. Did you say it might be road dust?

Mr. HOLDERER. Well, dust from the highways.

Mr. COBURN. Do you see any highways in that picture?

Mr. HOLDERER. Not in that immediate picture there, I do not.

Mr. COBURN. Then that would not be likely to generate much dust from that ore pile?

Mr. HOLDERER. No.

Now, wait a minute. There were roads leading to that. There must have been.

Mr. COBURN. Were there roads in that part of Montana?

Mr. HOLDERER. There must have been roads getting to that pile, and I would say that is snow probably. That looks like snow.

Mr. COBURN. That is what?

Mr. HOLDERER. I would say that that looks like snow.

Mr. COBURN. It looks like snow?

Mr. HOLDERER. Yes.

It is my information that the company at all times kept that pile oiled and sprinkled.

Mr. COBURN. Well, Mr. Holderer, I do not want to harass you in any sense, but do you remember testifying a few days ago before the committee in executive session that that was the ore blowing away?

Mr. HOLDERER. It might be some. It might be some of the very fine particles, but chromite is exceedingly heavy.

Mr. COBURN. And I believe you testified at that time, but check me if I am wrong about this, that this chrome is of such light character that it blows easily?

Mr. HOLDERER. No.

Mr. COBURN. You said that, did you not?

Mr. HOLDERER. No, I did not say that.

Mr. COBURN. Oh, did you not? What did you say about that?

Mr. HOLDERER. I did not.

I said that chrome ore is exceedingly heavy. It could shift as a sand dune shifts. That could be done.

Mr. COBURN. Did you not say that it blows easily?

Mr. HOLDERER. I did not say that it blows easily. I do not believe I did, and if I did, it was an incorrect statement.

Mr. COBURN. Did you not tell us this under oath a few days ago: That if this pile of ore were moved from one place to another to a refinery, we will say, to be beneficiated, that there would be a very substantial loss, because it flies and blows so easily?

Mr. HOLDERER. I did not say there would be a loss because it flies and blows so easily, but there would be a loss due to handling because of the fine nature of the product.

Mr. COBURN. I see.

Mr. HOLDERER. There would be leakage in the trucks; there would be leakage in the railroad cars. Every time a finely divided product of that kind is handled, you are going to get a loss, but not due to any wind action.

Mr. COBURN. All right.

Mr. Holderer, you say that you sat with John Ford, who was the chief negotiator on this contract, and who was not a mining engineer, when the price was negotiated.

Did he not rely on you for advice as to the price to pay this contractor?

Mr. HOLDERER. I do not think so.

He was quite competent to make up his own mind as to what was a fair price.

Mr. COBURN. Now, he was not a mining engineer, was he?

Mr. HOLDERER. He was not.

Mr. COBURN. And this chrome, of course, was of a low-grade character that did not have a ready market, did it?

Mr. HOLDERER. That is correct.

Mr. COBURN. So he could not rely on the market prices published in the mining journals?

Mr. HOLDERER. That is correct.

Mr. COBURN. Where would he get his price, then?

Mr. HOLDERER. A case of finding out what was a fair profit to the company, taking it——

Mr. COBURN. Did he rely on you to any extent as to what was a fair profit for this company?

Mr. HOLDERER. I do not think he did.

It was a case of taking into consideration the cost of operating, the cost of labor and supplies. They paid a pretty high royalty.

Mr. COBURN. Taking into consideration all of the costs involved, what profit should the company be entitled to?

Senator SYMINGTON. Excuse me. Who did you pay a royalty to?

Mr. HOLDERER. Mouat, the owner of the property. The company did not own the property. They leased it. The Government originally leased it from Mouat.

Senator SYMINGTON. How much was the royalty per ton?

Mr. HOLDERER. I do not know, but it was substantial. I do not remember the figure, but it appeared to me at that time to be a substantial royalty.

Senator SYMINGTON. And who were the owners? What was the name?

Mr. HOLDERER. A man by the name—the original prospector by the name of Mouat. I think it is spelled M-o-u-a-t, or something like that.

Senator SYMINGTON. He received a royalty per ton?

Mr. HOLDERER. Pardon?

He received a royalty per ton.

Senator SYMINGTON. I guess Mr. Lukens would know that, would he not?

Mr. HOLDERER. He should.

Mr. COBURN. Well, Mr. Ford was not a mining engineer?

Mr. HOLDERER. No.

Mr. COBURN. And you were?

Mr. HOLDERER. I was.

Mr. COBURN. Would he not rely on you, to some extent, to determine what was a fair price, a fair profit on this contract in view of the fact that you were a mining engineer and he was not?

Mr. HOLDERER. Well, he knew more about negotiations of that kind than I did.

We had no intention of enriching the company unduly. They were entitled to a fair profit and no more.

Mr. COBURN. What did you consider to be a fair profit on this contract?

Mr. HOLDERER. Well, compensation for their efforts.

Mr. COBURN. I know, but how much? I am talking about price, now.

Mr. HOLDERER. I do not know.

I would have to get back into those figures. I do not remember them. Ten years is a long time ago.

Mr. COBURN. You have no idea now as to what you thought was a fair price then?

Mr. HOLDERER. No. Ten years was a long time ago to remember figures of that kind.

Senator SYMINGTON. What would you say would be a fair return on investment?

Mr. HOLDERER. I do not know.

I would have to—the cost of labor went up before the contract expired.

Senator SYMINGTON. What do you think is a fair return on investment?

Mr. HOLDERER. I would say somewhere in the neighborhood of 8 or 10 percent.

Senator SYMINGTON. Before taxes or after taxes?

Mr. HOLDERER. Before taxes. They would get nicked for half of that with taxes.

Senator SYMINGTON. That is right.

Mr. COBURN. No further questions.

Senator SYMINGTON. Senator Bush?

Senator BUSH. I have no further questions.

Senator SYMINGTON. Senator Engle?

Senator ENGLE. No more questions.

Senator SYMINGTON. Thank you, Mr. Holderer.

Mr. Counsel, have you another witness?

Mr. COBURN. Mr. John Lukens.

Senator SYMINGTON. Mr. Lukens, if you are here, will you take the stand?

Mr. Lukens, it is the custom of the committee to put the witness under oath. Do you swear the testimony you give this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LUKENS. I do.

Senator SYMINGTON. You have with you your lawyer?

Mr. LUKENS. I do.

Senator SYMINGTON. And will you identify him for the record?

Mr. LUKENS. Mr. Fanelli; Mr. Joseph Fanelli.

Senator SYMINGTON. Proceed, Mr. Counsel.

Mr. COBURN. Will you state your name and address, Mr. Witness, please?

TESTIMONY OF JOHN L. LUKENS, FORMER EMPLOYEE OF THE GSA CONTROLLER'S OFFICE AND FORMER VICE PRESIDENT OF THE AMERICAN CHROME CO.; ACCOMPANIED BY JOSEPH A. FANELLI, ESQ. (COTTONE & FANELLI, ESQS.)

Mr. LUKENS. My name is John L. Lukens, 344 Huntington Lane, Elmhurst, Ill.

Mr. COBURN. Mr. Lukens, are you employed by the American Chrome Co.?

Mr. LUKENS. No, sir.
Mr. COBURN. How recently did you work for them?
Mr. LUKENS. As of 12 a.m., last night.
Mr. COBURN. 12 o'clock last night, you say?
Mr. LUKENS. Yes, sir.
Mr. COBURN. Will you speak close to the microphone, now, so that we can hear you?
Mr. LUKENS. Right.
Mr. COBURN. When did you go to work for them?
Mr. LUKENS. Can I look at my notes here a moment? May 9, I think it was, 1952.
Mr. COBURN. I am sorry, I cannot hear you.
Mr. LUKENS. May 9, 1952.
Mr. COBURN. May 9, 1952, is that when you went on the payroll of the company for the first time?
Mr. LUKENS. Either the 9th or the 10th.
Mr. COBURN. In other words, you were paid from that date by the company?
Mr. LUKENS. That is correct. I have here in my notes that I went on the payroll the 10th.
Mr. COBURN. The 10th of May 1952?
Mr. LUKENS. That is correct.
Mr. COBURN. All right. Now, Mr. Lukens, you are an accountant, are you, by experience and training?
Mr. LUKENS. That is correct.
Mr. COBURN. Did you at one time work for the General Services Administration of the Government?
Mr. LUKENS. That is correct.
Mr. COBURN. When?
Mr. LUKENS. I ended my employment there May 9, and I think——
Mr. COBURN. May 9, 1952?
Mr. LUKENS. That is correct.
Mr. COBURN. And when did you go to work for them?
Mr. LUKENS. I went to work for GSA when it was first formed from the old Treasury Procurement, and I do not remember just what date that is.
Mr. COBURN. When did you first enter the Government service approximately?
Mr. LUKENS. 4–43.
Mr. COBURN. What is that, 4–43? You mean, sir, April 1943?
Mr. LUKENS. I am sorry, it was in 1934.
Mr. COBURN. 1934?
Mr. LUKENS. Yes; the old Loan Corporation.
Mr. COBURN. And you remained in the Government service, then, as I understand it, until May 9, 1952?
Mr. LUKENS. That is correct, approximately 18 years.
Mr. COBURN. While you were with GSA, were you, as they express it here, loaned to the DMPA for a time?
Mr. LUKENS. That is correct.
Mr. COBURN. When was that?
Mr. LUKENS. I do not know the exact date, but I would venture a guess, December of 1951 or January of 1952, in that vicinity.
Mr. COBURN. And what were your duties in DMPA?

Mr. LUKENS. They were analyses, to make analytical and financial statements, costs, and whatnot, worked with the negotiators, the lawyers in making a contract on mining property.

Mr. COBURN. Do I understand it that your duties at that time consisted in analyzing the contracts that were being negotiated by DMPA under the Defense Production Act for the development of mining properties in the purchase of ore for the stockpile?

Mr. LUKENS. That is correct.

Mr. COBURN. And did you sit in on the negotiations when the contracts were being negotiated?

Mr. LUKENS. That is correct.

Mr. COBURN. And advised the negotiators as to the financial aspects of the negotiation?

Mr. LUKENS. That is correct.

Mr. COBURN. Now, do you recall having discharged these responsibilities in connection with a contract with the American Chrome Co.?

Mr. LUKENS. That is correct.

Mr. COBURN. Involving the opening and mining of a property at Nye, Mont.?

Mr. LUKENS. Correct.

Mr. COBURN. In that connection, did you come to know a Mr. Julian and a Mr. Eichelberger?

Mr. LUKENS. That is correct.

Mr. COBURN. Mr. Julian was president of the American Chrome Co., was he not?

Mr. LUKENS. That is correct.

Mr. COBURN. Mr. Eichelberger was their consulting mining engineer?

Mr. LUKENS. He advised me he was vice president, also.

Mr. COBURN. Vice president of the company; is that right?

Mr. LUKENS. Yes.

Mr. COBURN. Now, Mr. Lukens, during the course of the negotiations with the company, did anyone in the company approach you and talk with you about going to work for the company?

Mr. LUKENS. That is right.

Mr. COBURN. Who was that?

Mr. LUKENS. Mr. Eichelberger of the company, Mr. Eichelberger.

Mr. COBURN. When was that done?

Mr. LUKENS. Well, to the best of my knowledge, it must have been made in March, the latter part of March to April, some place in there, but I do not have the exact date.

Mr. COBURN. Of 1952?

Mr. LUKENS. Yes.

Mr COBURN. Where was that, here in Washington?

Mr. LUKENS. Yes, sir.

Mr. COBURN. At the office?

Mr. LUKENS. Yes, sir.

Mr. COBURN. Your office in DMPA?

Mr. LUKENS. There were several discussions about it, but——

Mr. COBURN. I am talking about the first discussion now.

Mr. LUKENS. I would say it was in my office, but I could not be real sure.

Mr. COBURN. Who was present, anybody besides you and Mr. Eichelberger?

Mr. LUKENS. No, sir; just us two.

Mr. COBURN. Mr. Holderer was not there?

Mr. LUKENS. No, sir.

Mr. COBURN. What did you tell Mr. Eichelberger?

Mr. LUKENS. I told him I was not particularly interested because they had already asked me for a recommendation of an accountant, and I had made one, and they had already committeed themselves.

Mr. COBURN. Did you continue to talk with Mr. Eichelberger about going to work for the company?

Mr. LUKENS. Subsequently; yes.

Mr. COBURN. And when did you make an agreement with him to do that?

Mr. LUKENS. The exact date, I am not too sure, but it must have been some time between the latter part of March and about April the 8th.

Mr. COBURN. Some time between the latter part of March and April 8, 1952?

Mr. LUKENS. That is correct.

Mr. COBURN. That you agreed with him, I suppose orally, was it, to go to work for the company, or was it in writing?

Mr. LUKENS. Oh, no; it was orally.

Mr. COBURN. Was anyone present besides you and Mr. Eichelberger?

Mr. LUKENS. No.

Mr. COBURN. Where did that final conversation——

Mr. LUKENS. That final conversation, to the best of my knowledge, was in my office.

Mr. COBURN. Now, Mr. Lukens, as the company began the performance of this contract, they had to certify to the Government certain expenditures in connection with opening up the mine, did they not, which were audited by DMPA?

Mr. LUKENS. Would you repeat that question, because I think it got a little backward, but go ahead.

Mr. COBURN. Perhaps so. It is quite likely I have it backward, and I will be glad to have you straighten me out, if I have.

As the contractor began to perform this contract——

Mr. LUKENS. Yes, sir; I have you now.

Mr. COBURN (continuing). Were there certain items of expenditure by the contractor that had to be audited and approved by DMPA?

Mr. LUKENS. Yes.

Mr. COBURN. Such as installation of machinery and that sort of thing in the mine?

Mr. LUKENS. That is correct.

Mr. COBURN. Did you audit any of those items?

Mr. LUKENS. No, sir.

Mr. COBURN. You did not touch any of those at all?

Mr. LUKENS. No, sir. I was in the credit and finance. I had nothing to do with the auditing.

Mr. COBURN. Who did that?

Mr. LUKENS. Various fieldmen.

Mr. COBURN. Various fieldmen?

Mr. LUKENS. Yes, sir.

Mr. COBURN. You mean out in the Northwest?

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Mr. LUKENS. Yes, sir. They came out of San Francisco, Denver, Portland, wherever they were available.

Mr. COBURN. This contract was signed on April 21, 1952, was it not?

Mr. LUKENS. To the best of my knowledge, yes. I have not seen it for some time. That is the letter of intent which you are talking about?

Mr. COBURN. Not the definitive contract, but the letter of intent, that was signed on April 21, 1952?

Mr. LUKENS. That is correct.

Mr. COBURN. I see.

All right, Mr. Chairman, I would like to offer for the record a letter that was written on April 21, 1952, by Mr. Estey A. Julian, president of the American Chrome Co., to Mr. John Ford, Director of Negotiations, Defense Materials Procurement Agency, Washington, D.C.

Senator ENGLE. Without objection it will be made a part of the record.

Mr. COBURN. If I may read it, it being short:

Mr. JOHN FORD, APRIL 21, 1952.
Director of Negotiations,
Defense Materials Procurement Agency,
Washington, D.C.

DEAR MR. FORD: Enclosed is copy of our letter today to Mr. Larson returning the executed chrome contract.

We are proceeding at once with the completion of plans, specifications, list, et cetera, for the reequipping of the property in accordance with the contract, and if it is in order to do so we would appreciate your suggestions and guidance in the manner and form of making up statements, flow sheets, progress reports, et cetera, which would assure their being in the form and detail desired by the Government.

We are engaging Mr. John Lukens as comptroller for the company, resident at the property, and are asking him to discuss these matters with you so we would start off the job with accounts and records that are in approved form.

Sincerely,

AMERICAN CHROME CO.,
ESTEY A. JULIAN, *President.*

bcc Mr. George Holderer,
316 North Thomas Street,
Arlington, Va.

Mr. Witness, did you receive a copy of this letter?

Mr. LUKENS. I received a copy through the mail, or Mr. Holderer gave me a copy. I am not too sure just how I got it, but I got a copy.

Mr. COBURN. This letter I have put in the record, Mr. Chairman, shows that a blind copy of this letter was sent to Mr. George Holderer at 316 North Thomas Street, Arlington, Va.

Was that Mr. Holderer's home?

Mr. LUKENS. Are you asking me?

Mr. COBURN. Yes.

Mr. LUKENS. I am not sure.

Mr. COBURN. But you do not remember whether you got a copy of this letter or not?

Mr. LUKENS. I got a copy, but you asked me where I got it from.

Mr. COBURN. I see. Did you receive one at the office?

Mr. LUKENS. That is where I apparently got it.

Mr. COBURN. From Mr. Julian?

Mr. LUKENS. Either Mr. Julian or Mr. Holderer showed it to me.

Mr. COBURN. It did not make much difference which?

Mr. LUKENS. It does not make any difference.

Mr. COBRUN. This, of course, only confirmed the arrangement that you had previously entered into with Mr. Eichelberger?

Mr. LUKENS. That is incorrect.

Mr. COBURN. Oh, is it? Well, in what way?

Mr. LUKENS. First of all, I had not made any completed arrangement. There had been discussion concerning my employment, and I was quite disturbed to see this letter or copy of a letter.

Mr. COBURN. I must have misunderstood what you just testified to a moment ago.

As I understood you, you said that sometime between the latter part of March and April the 8th, that you had had a conversation with Mr. Eichelberger in which it was definitely agreed that you were going to work for the American Chrome Co., is that right?

Mr. LUKENS. Well, if I gave you that impression, it is wrong, because I had not made any definite—there had been discussions concerning my employment.

Mr. COBURN. Do I understand you to say that prior to April 21, 1952, there was no definite arrangement between you and the American Chrome Co.?

Mr. LUKENS. I think—yes, there was a definite arrangement of some kind, but it was not at that particular time when this letter came in that there was, because the discussions had gotten around to terms of employment.

Mr. COBURN. I do not mean a written contract, now, but I am simply——

Mr. LUKENS. No; you are talking about verbal.

Mr. COBURN. Excuse me. Let me ask the question and then you can answer it.

Was there at any time before April 21, 1952, an agreement between you and Mr. Eichelberger that you were going to work for the company?

Mr. LUKENS. No; there was not a complete agreement to go to work for American Chrome Co.

Mr. COBURN. Well, what was there, then?

Mr. LUKENS. Only discussions in the sense of my going to work for them, on which I had already—prior to that they had asked me for a recommendation, I had given it to them. One of my objections was that they wanted to bounce a fellow that they had already committed themselves to, so there could not have been any commitment on my part.

Mr. COBURN. What I am trying to get is this, now, Mr. Lukens: At any time prior to April 21, 1952, had you and Mr. Eichelberger had a conversation in which you had agreed with Mr. Eichelberger that you would go to work for the company?

Mr. LUKENS. May I look at my notes a minute?

Mr. COBURN. Yes, sure, of course. Take your time.

Mr. LUKENS. According to my notes, I did expect to go between——

Mr. COBURN. I cannot hear you.

Mr. LUKENS. I say according to my notes, I must have expected to go between March the 19th and April 8, sometime in there.

Mr. COBURN. According to what, now?

Mr. LUKENS. My notes.

Mr. COBURN. According to your notes, what, now?

Mr. LUKENS. That I must have expected to go to work for American Chrome Co. between March 19 and April the 8th.

Mr. COBURN. 1952?

Mr. LUKENS. Correct.

Mr. COBURN. And by "expecting to go to work for them," you mean that you had an understanding with Mr. Eichelberger that you were going to work for them?

Is that what you mean?

Mr. LUKENS. Yes.

Mr. COBURN. I was going to say it would be an extremely curious thing if the president of the company wrote on April 21, 1952, to GSA saying that you were going to work for them, when you did not have any arrangement to do that.

He would not do that sort of thing, would he?

Mr. LUKENS. Apparently he did.

Mr. COBURN. But he did it because he had an arrangement—you did, rather, with Eichelberger, that you were going to work for the company, is that not the way that went?

Mr. LUKENS. That arrangement was not quite complete.

Mr. COBURN. I am not talking about a complete arrangement.

Mr. LUKENS. OK.

Mr. COBURN. I am only talking about a definite arrangement that you were going to go to work for the company.

Mr. LUKENS. OK, all right.

Mr. COBURN. Just that.

And you did have that arrangement with Eichelberger before April 21, obviously, did you not?

Mr. LUKENS. Obviously.

Mr. COBURN. Did you ever talk with Mr. Holderer about this arrangement that you had with the company?

Mr. LUKENS. Mr. Holderer recommended me for the job.

Mr. COBURN. Yes, and did you talk with him and tell him that you had agreed with Eichelberger that you were going to work for the company?

Mr. LUKENS. Probably so. I do not remember now.

Mr. COBURN. I was wondering where Mr. Eichelberger got the idea that he had a conversation with Mr. Holderer about your wanting to have some kind of a contract that would guarantee you employment for a period of time.

Did he get that from you?

Mr. LUKENS. Yes.

Mr. COBURN. You felt that such a contract should be entered into to protect yourself?

Mr. LUKENS. Correct.

Mr. COBURN. Is that right?

Mr. LUKENS. Right.

Mr. COBURN. And that resulted in Mr. Holderer talking with Mr. Eichelberger in those terms?

Mr. LUKENS. That is correct. I would assume so.

Mr. COBURN. And after you did go to work for the company, did you enter into a contract with them by which they agreed to employ you for a certain time?

Mr. LUKENS. No, sir.
Mr. COBURN. You did not do that?
Mr. LUKENS. No, sir.
Mr. COBURN. Why not?
Mr. LUKENS. Well, first of all, I found out that my discussions with Mr. Eichelberger and the conditions of employment had not been passed on to the president.

Then, after being there awhile, I did not know whether I wanted to stay with the company and decided I did not want to be tied down by any contract.

Mr. COBURN. Mr. Lukens, after you went to work for the company, did you see in the company files, find in the company files these copies of the telephone conversations that I used in examining Mr. Holderer?
Mr. LUKENS. Yes, sir.
Mr. COBURN. You found them there, did you?
Mr. LUKENS. Yes, sir.
Mr. COBURN. How soon after you went to work for the company?
Mr. LUKENS. I would guess about the time that all records were trying to be separated from Goldfield's records, to set up our office in American Chrome Co.
Mr. COBURN. When was that, about?
Mr. LUKENS. I think we went to Nye in about September because we had to get our children into school.
Mr. COBURN. September? I cannot understand you well. September?
Mr. LUKENS. September.
Mr. COBURN. Of 1952?
Mr. LUKENS. Yes.
Mr. COBURN. And did you read those transcripts of the telephone conversations?
Mr. LUKENS. I read some of them.
Mr. COBURN. What?
Mr. LUKENS. I read some.
Mr. COBURN. Did you remember the conversations?
Mr. LUKENS. Not all, no.
Mr. COBURN. There was one conversation there where you and Mr. Eichelberger and Mr. Holderer were all on the telephone together according to the transcript.
Mr. LUKENS. Yes, sir.
Mr. COBURN. Is that right?
Mr. LUKENS. I do not recall that conversation.
Mr. COBURN. You do not recall the conversation.

Well, if you did not recall the conversation at the time that you found these copies of the transcripts, you must have been quite upset about them, were you not?
Mr. LUKENS. I was quite irritated, if I may put it that way.
Mr. COBURNS. What did you do about it?
Mr. LUKENS. I brought it to the attention of one of the officers of the company.
Mr. COBURN. Who?
Mr. LUKENS. Mr. Willis A. Swan.
Mr. COBURN. Did you speak with Mr. Eichelberger about it? He was in on the conversation.

Mr. LUKENS. Mr. Eichelberger's office is in Spokane. I do not believe I saw him but once after I went to work for the company.

Mr. COBURN. Did you talk with Mr. Julian, who was the president of the company, about these transcripts?

Mr. LUKENS. I did not.

Mr. COBURN. Why not?

Mr. LUKENS. Being a newcomer and trying to make my own way, why, it was decided or I decided that was not the proper thing to do.

Mr. COBURN. Did you remain on the job there at the DMPA until after this contract was signed to make sure that the contract was signed before you left?

Mr. LUKENS. No, sir.

Mr. COBURN. Or to remain on the job there to see that the contract, the performance of the contract, was not hampered by anyone holding up the audit of the company expenses?

Mr. LUKENS. No, sir.

Mr. COBURN. You did not even discuss that with Mr. Holderer at any time?

Mr. LUKENS. I have no recollection of discussing any of that with Mr. Holderer at all.

It would not have been in my prerogative to audit those accounts, to my knowledge.

Mr. COBURN. Now, Mr. Lukens, the American Chrome Co. was organized as a new corporation late in 1950 for the purpose of entering into this contract with the Government, was it not?

Mr. LUKENS. I do not know that. That was before I went with the company.

Mr. COBURN. Yes; I realize that, but did the company ever do anything at all in business before it got this contract?

Mr. LUKENS. American Chrome Co., to my knowledge, had no other properties except this particular property.

Mr. COBURN. It had no other operation except this particular mine?

Mr. LUKENS. That is correct.

Senator BUSH. May I ask a question there?

Mr. COBURN. Yes; certainly.

Senator BUSH. Was the company formed to do this operation?

Mr. LUKENS. Not to my knowledge. I do not think so.

Senator BUSH. Was it in business before it undertook this?

Mr. LUKENS. I think it was formed for the reason that—and I am only giving you hearsay, I do not really know—I think it was formed because in order to acquire various pieces of property and claims, negotiate with various, different people, stock was issued to these people as well as cash in order to acquire it.

Now, to belong to Goldfield, it would have been a 100-percent-owned corporation, and at the time, I think, when I went with the corporation, Goldfield only owned about 67 percent.

Senator BUSH. Of American Chrome?

Mr. LUKENS. Of American Chrome Co.

Senator BUSH. Was Goldfield an old, established company?

Mr. LUKENS. I understand it was incorporated in 1906.

Mr. COBURN. The American Chrome Co., I believe you have said, never in all the time that you were with it, never had any other business than the operation of this mine?

Mr. LUKENS. That is right.

Mr. COBURN. When the contract with the Government came to an end by the performance of the contract, did the chrome company continue to operate the mine?

Mr. LUKENS. No; but they kept a staff, a small staff. I believe there is a small staff there now.

Mr. COBURN. Closed down the mine when the Government contract ran out?

Mr. LUKENS. That is correct.

Mr. COBURN. Did the American Chrome Co. undertake to beneficiate this ore out there at the mine site?

Mr. LUKENS. Yes, sir.

Mr. COBURN. What did they do in that connection?

Mr. LUKENS. They installed furnaces, other equipment—they had special technical problems on which I am not qualified but know something about it—to process fines for the job.

Other companies making a high-carbon ferrochrome mixed ore and fines from foreign sources. We had no lump ore except what came out of our own mines, and, as a result, the grade of the ferrochrome could not be increased by lumping it together, so—I am not sure of this, but I believe American Chrome Co. has patents whereby they have been able to nodulize these fines into lumps, which is necessary, apparently, for feed and furnace, to let the gas out and so forth.

Mr. COBURN. Let me see if I understand you.

You say that the American Chrome Co. did consult what is called a pilot plant out there at the mine?

Mr. LUKENS. Yes, sir.

Mr. COBURN. When did they do that, Mr. Lukens?

Mr. LUKENS. The exact date I cannot remember. From the time of my employment American Chrome Co. always thought about going into the commercial business.

Piecemeal equipment was brought in for testing, laboratory, and then, if I remember correctly, there was about $1 million spent in—well, not quite that much—in putting in a furnace.

Then we needed another furnace.

Mr. COBURN. This is a beneficiating furnace at the mine site?

Mr. LUKENS. It was a pilot furnace.

It could only produce between 15 and 20 tons per day of ferrochrome, which is not enough to economically run at a profit.

Mr. COBURN. When was that done, now? I want to try to get how long that pilot plant operated there?

Mr. LUKENS. I would say—I do not have the dates. I had to come to Washington to get the Government to release about 40,000 tons over and above the regular production. I would say it was 3 or 4 years ago.

Mr. COBURN. Three or four years ago?

Mr. LUKENS. But I am guessing. I really do not know.

Mr. COBURN. That is all right.

You think it was about 3 or 4 years that the pilot plant operated?

Mr. LUKENS. Yes, sir.

Mr. COBURN. That is all right.

You think it was about 3 or 4 years that the pilot plant operated?

Mr. LUKENS. Yes, sir.

I was sent to Chicago over 3 years ago, and the pilot plant was built then and was in operation, but it is about 4 years, I would say.

Mr. COBURN. All right.

Now, that pilot plant was used, was it, to convert the ore at the mine into ferrochrome?

Mr. LUKENS. No, sir.

Mr. COBURN. What was it, then? When was it used for?

Mr. LUKENS. It was used to convert the concentrate into ferrochrome.

Mr. COBURN. The concentrates at the mine into ferrochrome?

Mr. LUKENS. Concentrates that came—the ore comes from the mine. It went through a mill. It was ground up. It came out as fines, and that is what is known as the concentrates.

The grade of the ore——

Mr. COBURN. Let us not go into a lot of detail.

Mr. LUKENS. OK.

Mr. COBURN. I am just trying to get this one thing and that is all.

You milled the ore into concentrates, and then the concentates were put through this pilot plant to be converted into ferrochrome, is that right?

Mr. LUKENS. That is correct.

Mr. COBURN. All right.

How much ferrochrome all together did you produce out there?

Mr. LUKENS. There was a lot of experimental, but I disposed of well over 2 million pounds of ferrochrome to the steel industry.

Mr. COBURN. So that after you started making ferrochrome there, then, did you have charge of selling the ferrochrome to the steel industry?

Mr. LUKENS. I was sent to Chicago to do that job.

Mr. COBURN. How long were you engaged in selling that stuff to the steel industry?

Mr. LUKENS. Approximately 3 years.

Mr. COBURN. And what success did you have?

Mr. LUKENS. I thought we had very good success considering what we had, and noting the diversification of the one product was well received by the steel people.

Mr. COBURN. What was the capacity?

Mr. LUKENS. We did not have any capacity.

Mr. COBURN. Was that the trouble?

Mr. LUKENS. Yes, sir.

Mr. COBURN. What did you say the capacity was a day?

Mr. LUKENS. Depending upon the grain, it would run between 15 and 20 tons a day.

Mr. COBURN. So you did not have enough capacity for commercial purposes?

Mr. LUKENS. You would need a plant, so the production people tell me, to have at least 100 tons and be able to market it.

Mr. COBURN. Is the company still selling that ferrochrome?

Mr. LUKENS. About 4 weeks ago, I think, we disposed of the last four carloads.

Mr. COBURN. And are they still operating the——

Mr. LUKENS. No, sir. That was just in inventory.

Mr. COBURN (continuing). The test plant out there?

Mr. LUKENS. Yes, sir.

Mr. COBURN. They are not operating the test plant?

Mr. LUKENS. They are not operating.

Mr. COBURN. They have decided it is not financially feasible to continue to make ferrochrome?

Mr. LUKENS. No. I do not believe so.

Mr. COBURN. Why did they stop?

Mr. LUKENS. Well, because they needed a larger plant that will take the expenditure of $6 to $8 million, and I am giving round figures again.

Senator SYMINGTON. Let me ask a question here.

You had this 38 percent ore?

Mr. LUKENS. Yes, sir.

Senator SYMINGTON. And you concentrated that into——

Mr. LUKENS. No, sir.

Senator SYMINGTON. What do you mean by "concentrates," then?

Mr. LUKENS. The ore from the mine ran between 20 and 22 percent. It ran through tables, mills, class of fire, and all other things.

Senator SYMINGTON. All right.

Mr. LUKENS. And came out 38 percent and better. They even got some up to 44 percent.

Senator SYMINGTON. Actually, though, this mine averaged around 22 percent, is that right?

Mr. LUKENS. Some of it was less than that.

Senator SYMINGTON. So what you did was go over your ore until you got what would average around 38 percent, is that correct?

Mr. LUKENS. That is correct.

Senator SYMINGTON. Then why would you not ship that ore to a refinery, to make the ferrochrome?

Why did you put a plant way out there in the wilderness?

Mr. LUKENS. You have two questions there.

Senator SYMINGTON. Yes.

Mr. LUKENS. The plant in the wilderness is a pilot plant, and we wanted to have it close to our technical men and our laboratories.

Senator SYMINGTON. If it was a pilot plant and you produced a total of 1,000 tons, which you testified to, you had no real——

Mr. LUKENS. How many tons?

Senator SYMINGTON. You said 2 million pounds. That would be 1,000 tons, would it not?

Mr. LUKENS. Oh, yes; but that is over a long period of time. Actually, I think it was closer to 2,300-and-some-odd tons but I am not——

Senator SYMINGTON. That would be a lot more than 2 million pounds.

Mr. LUKENS. Yes. I said approximately.

Senator SYMINGTON. Then when you put this pilot plant in; you were not looking at it on a commercial basis.

What you were actually doing was trying to find out whether you could use this ore at all, is that not correct?

Mr. LUKENS. Yes, sir.

Senator SYMINGTON. You did not know whether you had a process, whether the ore could or could not be used?

Mr. LUKENS. Yes, sir; we did know.

Senator SYMINGTON. The results of the pilot plant showed what?

Mr. LUKENS. The results of the pilot plant showed that it could be produced.

All of these things were done in this pilot plant at 15 and 20 tons, had been done in cooperation with the Bureau of Mines over a long period of time while I was employed by American Chrome Co., and by history, I believe, the Bureau of Mines had developed from the old operation some ferrochrome which was used by the steel companies.

Senator SYMINGTON. Then why did you build a pilot plant? Why not build a plant?

Mr. LUKENS. There is that old stigma that we do not have anything out there.

Senator SYMINGTON. I beg your pardon?

Mr. LUKENS. We had the stigma.

Senator SYMINGTON. Even though the process was already in use in other places, you had to prove it out there?

Mr. LUKENS. With the only technical exception, how do you use fines, and that was a big problem with the technical men.

Senator SYMINGTON. You went with the company as the comptroller, is that right?

Mr. LUKENS. Yes, sir.

Senator SYMINGTON. And then your position shifted, did it not?

Mr. LUKENS. Yes, sir.

Senator SYMINGTON. From what to what?

Mr. LUKENS. Treasurer and vice president.

Senator SYMINGTON. Then you became the sales head of the company, too?

Mr. LUKENS. Well, I still retained my title as vice president, but I was more manager to dispose of this pilot plant production.

Senator SYMINGTON. I understand.

You say you left the company last night?

Mr. LUKENS. That was my last day.

Senator SYMINGTON. And when was it decided that would be your last day?

Mr. LUKENS. Probably in March.

Senator SYMINGTON. Last March?

Mr. LUKENS. Yes, sir.

Senator SYMINGTON. When you went with the company and the company developed the pilot plant, and then you changed from comptroller, you went to treasurer to vice president, and then tried to sell this ferrochrome.

Mr. LUKENS. We did sell it.

Senator SYMINGTON. You did sell this ferrochrome to industry, right?

Mr. LUKENS. Right.

Senator SYMINGTON. And during those years, was the plan for the company to continue as a company or were you really in a liquidation operation?

Mr. LUKENS. We were planning to continue as a company.

Senator SYMINGTON. Then why didn't you?

Mr. LUKENS. Mostly because we were not diversified, and we had no other products coming out of this mine, like some others do, except chromite ore.

Senator SYMINGTON. But you knew that was true before you even formed the company, did you not?

Mr. LUKENS. There are about 30 different grades of ferrochromes, We started out from studies made by Battelle, Arthur D. Little, and I made my own to determine what the market was.

Senator SYMINGTON. Let me repeat my question.

When you started out, you knew you would only have a company that had one asset: namely, chromium ore?

Mr. LUKENS. That is correct.

Senator SYMINGTON. Why did you not continue with the company?

Mr. LUKENS. Financially and economically we could not continue.

Senator SYMINGTON. Why not?

Mr. LUKENS. That you will have to ask the board of directors. I do not really know.

Senator SYMINGTON. But you were operating the company.

Senator THURMOND. Mr. Chairman, I cannot hear. Would you talk a little louder and do not get so close to the microphone.

Mr. LUKENS. Yes, sir.

Senator SYMINGTON. If you were operating the company—you went with them in 1952?

Mr. LUKENS. Correct.

Senator SYMINGTON. And they made money in 1952 and 1953?

Mr. LUKENS. I think so.

Senator SYMINGTON. Did you not see the books?

Mr. LUKENS. Yes, but I cannot remember. I have not seen the books for some time. Unless I looked at it again, I cannot tell you exactly.

Senator SYMINGTON. I do not want to belabor it, and will make my questions as short as possible.

You went with the company in 1952. They mined, and received money from the Government for what they put above ground, is that correct?

Mr. LUKENS. That is correct.

Senator SYMINGTON. And you paid a royalty to the owners?

Mr. LUKENS. That is correct.

Senator SYMINGTON. How much was the royalty per ton?

Mr. LUKENS. Well, it changed at least four times, in my knowledge, even before the Government, and I have now lost track.

I think it is about 67 cents a ton.

Senator SYMINGTON. What was it when you first came with the company?

Mr. LUKENS. Now I am a little mixed up.

Senator SYMINGTON. You can see this record and change it.

Mr. LUKENS. Well, I am not worried too much about that. But, first, they had a royalty against the ore, and then it was changed against the concentrate. As an accountant for GSA, I thought it was excessive. I made——

Senator SYMINGTON. I am not asking you what you thought; rather what it was.

Mr. LUKENS. I do not know.

Senator SYMINGTON. Now, in 1953, 1954, and 1955, you continued to deliver the ore?

Mr. LUKENS. Yes.

Senator SYMINGTON. To this hill by the mine, is that right?

Mr. LUKENS. Correct.

Senator SYMINGTON. And you continued to get paid?

Mr. LUKENS. Correct.

Senator SYMINGTON. How much did you get paid for the ore?

Mr. LUKENS. It averaged around about $35 a ton.

Senator SYMINGTON. And what did it total, all told?

Mr. LUKENS. Well, I heard the other witness. He said around $31 million, but I estimate it a little higher than that, but I do not know why.

Senator SYMINGTON. What did you estimate it at?

Mr. LUKENS. I thought it was around $35, $36 million.

Senator SYMINGTON. What was the profit out of it?

Mr. LUKENS. Again, I am estimating. Over the period of time it must have been some $5 million or more.

Senator SYMINGTON. $5 million?

Mr. LUKENS. I am guessing again.

Senator SYMINGTON. On $35 million, is that right?

Mr. LUKENS. Yes, sir.

Senator SYMINGTON. Was that before taxes or after taxes?

Mr. LUKENS. Before.

Senator SYMINGTON. When did you stop shipping to the Government stockpile?

Mr. LUKENS. I also heard that it was in October. My figure is October 3 or 4, but it was in October of 1961.

Senator SYMINGTON. In October of 1961, the shipments stopped?

Mr. LUKENS. Yes, sir.

Senator SYMINGTON. So you shipped for about 9 years?

Mr. LUKENS. Sir, we had a 9-year contract, 1 year for construction, and 8 years to produce. We were to produce 900,000 tons, or whichever came first, the 8 years or the 900,000 tons.

We were ahead of our production, so we quit in October when we got the 900,000 tons.

Senator SYMINGTON. And that was the end of your contract?

Mr. LUKENS. That is right.

Senator SYMINGTON. You really did not have a business except for what you would produce for the stockpile, did you?

Mr. LUKENS. That is correct.

Senator SYMINGTON. So this company was formed with the idea of moving this relatively low-grade ore into the stockpile, and operated over the period of the contract; then, when supplying the stockpile was finished, you started making plans to liquidate the property, is that correct?

Mr. LUKENS. Well, yes. Prior to my employment, I did not know what the company was formed for.

Senator SYMINGTON. You went with the company in 1952?

Mr. LUKENS. 1952.

Senator SYMINGTON. At that point they had not made any sales?

Mr. LUKENS. Oh, no. There was no company except books.

Senator SYMINGTON. Yes. Then all the sales were made while you were with them?

Mr. LUKENS. That is correct.

Senator SYMINGTON. And when you finished the contract, because it was not a commercial operation, you started to liquidate, is that right?

Mr. LUKENS. They have not liquidated.

Senator SYMINGTON. I beg your pardon?

Mr. LUKENS. They have not liquidated, to my knowledge. They just closed the plant.

Senator SYMINGTON. They closed the mine?

Mr. LUKENS. That is correct.

Senator SYMINGTON. Commercially they liquidated, but corporately they are still together, is that right?

Mr. LUKENS. That is right.

Senator SYMINGTON. And you have left the company?

Mr. LUKENS. Yes, sir.

Senator SYMINGTON. Did you receive the same salary after they liquidated as you did before?

Mr. LUKENS. Oh, yes.

Senator SYMINGTON. All the way through?

Mr. LUKENS. Yes, sir.

Senator SYMINGTON. At roughly the same figure?

Mr. LUKENS. When I was employed?

Senator SYMINGTON. Yes.

Mr. LUKENS. No, sir. I received raises.

Senator SYMINGTON. But you did not receive any reductions until the termination of your employment?

Mr. LUKENS. That is correct.

Senator SYMINGTON. Thank you.

Mr. COBURN. Mr. Lukens, I wanted to make this clear.

You tell about their beneficiating some rather small amounts of the ore. That, of course, was not the ore that was sold to the stockpile, was it?

Mr. LUKENS. No, sir, it was not.

Mr. COBURN. All of the stockpile ore, that is, 900,000 tons, is still out there at Nye?

Mr. LUKENS. Correct.

Mr. COBURN. That is all, Mr. Chairman, of this witness.

Senator SYMINGTON. Senator Thurmond?

Senator THURMOND. Mr. Lukens?

Mr. LUKENS. Yes, sir?

Senator THURMOND. Would you tell us exactly what you did while representing the Government in connection with this company and in dealing with this company?

Mr. LUKENS. Yes.

Senator THURMOND. Just what role did you play representing the U.S. Government?

Mr. LUKENS. As a financial analyst.

Senator THURMOND. How is that?

Mr. LUKENS. As a financial analyst, analyzed the figures that were available, financial statements, cost statements, estimates.

Senator THURMOND. I would like for you to tell us the role that you played as a representative of the U.S. Government with this company that you later went with.

Mr. LUKENS. Well, we required certain financial statements that are normally required of any application, which consist primarily of the balance sheet, a profit and loss statement. I believe, if I remember correctly, they were attached to the application.

We asked for cost statements.

I also believe that the application put forth a price to the Government for this ore.

I requested a breakdown of the costs.

When the negotiators got into the problem of advances which they advanced American Chrome Co. for housing, the loan that they made in the amount of $2,165,000 for equipping the mine, all those things came under the jurisdiction of an analyst as far as the figures were concerned.

He coordinated his efforts with the technical people, because, obviously, an analyst would not know, unless he worked in that particular thing, about the equipment and machinery and things of that nature.

And he advised with the other panel members, which consisted of a negotiator, a legal man, a technical man, to bring together a contract.

Senator THURMOND. Do you think it would have been better if you had disqualified yourself as representing the Government in this matter, since you were going to be connected with this company later?

Mr. LUKENS. At the time that I was negotiating or the negotiating had been completed, the elements of the contract had been made.

Senator THURMOND. How is that?

Mr. LUKENS. The elements of the contract or the letter of contract had been made when I was approached about employment.

Senator SYMINGTON. Will the Senator yield?

Senator THURMOND. Yes.

Senator SYMINGTON. Did you discuss the propriety of considering for payment bills of a company, at the same time you were negotiating with said company for a position?

Mr. LUKENS. No, sir.

Senator SYMINGTON. Thank you, Senator.

Senator THURMOND. What was your first evaluation of the financial status of the company?

Mr. LUKENS. Very meager. It was not much to it. It was a newly formed corporation with two or three figures on its balance sheet, if I remember correctly.

I do not believe there was any profit-and-loss statement or expenses, because at that time I think Goldfield had put it on the balance sheet as a loan to American Chrome Co. from Goldfield.

Senator THURMOND. Upon what was the history of the business of this evaluation based?

Mr. LUKENS. There were two major or three major things: (1) Their actual cash investment; (2) the amount of money that they had lent American Chrome Co.; and (3) properties acquired from various sources to make up this total property.

There were various people involved in it, and they issued stock.

Moneys for acquiring property and those moneys that were issued for acquiring property were lent to American Chrome Co.

Senator THURMOND. What was your determination as to the assets of the company?

Mr. LUKENS. They were indeterminable about that time.

Senator THURMOND. How is that?

Mr. LUKENS. They were a little indeterminable at that time.

Senator SYMINGTON. If the Senator will yield, what were the assets of the company? Did they consist of just the loan from Goldfield?

Mr. LUKENS. No. I finally had it broken down, and there was a capital investment of some $19,000 cash.

Senator THURMOND. How much did you say?

Mr. LUKENS. About $19,000.

Senator SYMINGTON. So the assets of the company would be the lease they had, which they paid the royalty on, and the cash investment of $19,000.

What else?

Mr. LUKENS. They had loaned American Chrome Co. a sum of money, I cannot recall how much, but it was over $100,000, I think.

They had acquired those buildings which were left on the property, the mill building, staff houses, bought the land where those buildings were.

No; they did not acquire the mill building. The mill building still belonged to the Government.

Senator SYMINGTON. When they acquired the land, did they pay for it and set it up as an asset?

Mr. LUKENS. They paid for it by cash and stock, but the cash that they paid for they lent to American Chrome Co.

Senator SYMINGTON. I thought we were talking about American Chrome Co.

Mr. LUKENS. I am talking about Goldfield. Somebody asked me what kind of an investment Goldfield put in, I assumed.

Senator SYMINGTON. No.

I think the Senator wanted to know what the assets of the American Chrome Co. were when you looked it over.

Senator THURMOND. That is right.

Senator SYMINGTON. Let us take the balance sheet. What did they have in the way of current assets?

Mr. LUKENS. Nothing.

Senator SYMINGTON. But they had $19,000, did they not?

Mr. LUKENS. Well, that was not in cash.

Senator SYMINGTON. I thought you said it was cash.

Mr. LUKENS. That was what they capitalized.

Senator SYMINGTON. They put $19,000 worth of stock out, not cash?

Mr. LUKENS. No, sir; they put $19,000 of cash in something or other, prior to——

Senator SYMINGTON. Now, wait a minute, Mr. Lukens. You were the auditor for the Government on this.

Mr. LUKENS. Yes; but I do not have these papers.

Senator SYMINGTON. We always get into something or other.

Let us try to find out what they had in the way of assets when you looked at their balance sheet for the first time.

What did they have in the way of current assets? You said nothing.

All right.

What did they have in the way of fixed assets?

Mr. LUKENS. They had certain buildings listed which came out later, but in the original——

Senator SYMINGTON. I am talking about the first time you saw the balance sheet.

Mr. LUKENS. They had an appraised value on the ground, buildings, other miscellaneous equipment that they had acquired through stock issuances.

Senator SYMINGTON. And that was $19,000?

Mr. LUKENS. No. That was above. They had appraised it up in the millions of dollars, I think.

Senator SYMINGTON. I see.

So then the statement you looked at, of the American Chrome Co., had no current assets, but fixed assets, based on the figure they placed, of value, on the property we are talking about, including the buildings on that property, is that correct?

Mr. LUKENS. That is correct.

Senator SYMINGTON. Now, what were their current liabilities?

Mr. LUKENS. I think only the stock issuance, if I remember rightly. That would be the net worth.

Senator SYMINGTON. That would be a fixed liability, would it not, the stock issuance?

Mr. LUKENS. Yes.

Senator SYMINGTON. So they had no current assets, and no current liabilities.

Their fixed assets were their estimate of what the property was worth?

Mr. LUKENS. That is right.

Senator SYMINGTON. And their fixed liability was the amount of stock they issued against that property?

Mr. LUKENS. That is right.

Senator SYMINGTON. Who owned the stock? Did they give that to Goldfield or did they give——

Mr. LUKENS. Goldfield—well, again, I am taking this from memory. They issued certain blocks of stock to people who had certain interests, such as Mr. Eichelberger, Mr. Cleveland. There are quite a few others.

Senator SYMINGTON. How did these people get their interest? Did they put up any money?

Mr. LUKENS. Who put up?

Senator SYMINGTON. Mr. Eichelberger.

Mr. LUKENS. Not to my knowledge.

Senator SYMINGTON. Then why did he get the stock, if the Goldfield people were the people——

Mr. LUKENS. As I understand it, Mr. Cleveland obtained the lease of the claims from Mr. Mouat, and, as such, Mr. Eichelberger promoted the sale of that lease to Goldfield, and Goldfield formed American Chrome Co., and you gave me the date—and I do not know it—in 1950 sometime.

Senator SYMINGTON. Just one more question, and I thank the Senator from South Carolina for yielding to me.

On the basis of this balance sheet, as you describe it, with no current assets, as a Government representative how could you approve a contract with the Government and why would you want to go with this company?

Mr. LUKENS. The contract was approved mostly on the basis of its parent organization. American Chrome Co. had nothing.

Senator SYMINGTON. Thank you.

Senator THURMOND. Mr. Lukens, was it your responsibility to make final judgment on this matter as representing the U.S. Government?

Mr. LUKENS. No, sir.

Senator THURMOND. But it was your responsibility, I presume, to make final judgment as to the analysis upon which the judgment was to be made, was it not?

Mr. LUKENS. I would not say that, either. I was to prepare the figures, but it was not my final judgment.

Senator THURMOND. What was the purpose in having you make an analysis?

Mr. LUKENS. I assume, because of my educational background and knowledge of some figures.

Senator THURMOND. I do not mean your qualifications for making the analysis. I mean why was the analysis made for the Government?

Mr. LUKENS. To be very frank with you, I did not want to make analysis in the first place.

Senator THURMOND. I say, Why was it made? Why did the Government want it made?

Mr. LUKENS. Why did the Government?

Senator THURMOND. Who ordered it made, and for what purpose?

Mr. LUKENS. The chief negotiator.

Senator THURMOND. Why did he want it?

Mr. LUKENS. I do not know. I was ordered to make the analysis.

Senator THURMOND. And you cannot imagine why he would want an analysis that might assist him and guide him in his decision?

Mr. LUKENS. I would assume that it was to make a stockpile of chromite that was supposedly needed at that time.

Senator THURMOND. Upon what facts did you finally agree to the company's financial ability to carry out this proposed contract?

Mr. LUKENS. The letter of intent included various items that I asked for:

One, I wanted a bond of the company, and the bond was so excessive that that was overruled completed, and it was obviously because of the premium and cost.

Since nobody had operated or knew too much about cost figures with respect to the production of chromite ore, there was prepared, probably at my suggestion, by the legal staff, a paragraph or a part where, after the first year's operation, the price was to be renegotiated again.

There was also escalation placed in it, based upon Bureau of Labor statistics.

The cost figures that were submitted, there is one I can remember now, but there were others, I required a reduction in royalty figures.

There were many items that I cannot recall at the moment, but those are some.

Senator THURMOND. In view of your future employment with this company, did you not feel a delicacy in representing the Government in making the analysis upon which a decision was going to be based as to whether or not this contract was entered into?

Mr. LUKENS. No decision as to my employment had been made until the elements of this contract had been completed.

Senator THURMOND. No decision as to your employment had been made?

Mr. LUKENS. No, sir; not to the best of my knowledge.

Senator THURMOND. But you knew you were going with them, did you not?

Mr. LUKENS. Eventually, yes, but not at that time.

Senator THURMOND. And so whether you had actually signed the contract of employment or not, you knew that you were going with this company?

Mr. LUKENS. Yes.

Senator THURMOND. And, therefore, you had future employment with this company?

Mr. LUKENS. That is right.

Senator THURMOND. In view of that, do you think it was the part of propriety, then, for you to represent the U.S. Government in preparing an analysis which would be used for making the determination as to whether the U.S. Government would enter into this contract?

Mr. LUKENS. The propriety of it is not good. However, I am pointing out that the contract, the elements of the contract had been agreed to, were in GSA only waiting for the various signatures, and that had been done sometime before I was even broached in the way of employment with American Chrome Co.

Senator THURMOND. The analysis that you would make in this matter might determine whether or not the contract was entered into, would it not?

Mr. LUKENS. No, sir; I do not think so.

Senator THURMOND. Then if it would not, what purpose was there in wasting your time to make an analysis?

Mr. LUKENS. I do not understand your question now. Would you repeat it please?

Senator THURMOND. If the result of your analysis was not to assist in making a determination as to whether the Government would enter into this contract, then why did you waste your time to make it, and why did your superiors or others request you to make it, if it would not assist them in making such determination?

Mr. LUKENS. It did assist them in making such a determination.

Senator THURMOND. Therefore, the result of your analysis was of benefit to them in arriving at a decision?

Mr. LUKENS. That is right.

Senator THURMOND. As to whether to enter into this contract?

Mr. LUKENS. That is right.

Senator THURMOND. Then if that is the case, do you not think it was improper, in view of your future employment with the company, to make an analysis upon which a judgment would be based as to whether the Government should enter into this contract?

Mr. LUKENS. I was not discussed or asked.

Senator SYMINGTON. Any time you would like to talk with your counsel, you are welcome to do it.

Mr. LUKENS. I understand.

Senator THURMOND. Mr. Chairman, that will be all.

Mr. FANELLI. Could he finish that answer, Senator?

Senator SYMINGTON. Yes. First repeat the question, will you, Mr. Reporter?

(The question was read, as requested.)

Mr. LUKENS. The analysis was completed before I was broached for employment with American Chrome Co.

Senator THURMOND. You had known for some time, as a matter of fact, Mr. Lukens, that you were going with this company, did you not?

Mr. LUKENS. To the best of our knowledge, with the records that I have available, it was between, it must have been sometime between March 19—sometime in there, March on up to April.

Senator THURMOND. You had known for some time you were going with this company, but, yet, you participated as representing the Government in this matter, did you not?

Mr. LUKENS. There was nothing to represent at that particular time, Senator.

Senator THURMOND. That is all.

Senator SYMINGTON. I do not want to labor the Senator's question, but the truth of the matter was you all had to create a company before you personally would get a job outside, is that not right?

Mr. LUKENS. Had to get some business.

Senator SYMINGTON. Mr. Counsel, have you any further questions?

Mr. COBURN. I just want to ask you this one question, Mr. Lukens:

If the American Chrome Co. had not procured this contract with the U.S. Government, do you think you would have gone to work for them?

Mr. LUKENS. No.

Mr. COBURN. I believe that is all, Mr. Chairman.

Senator SYMINGTON. Thank you, Mr. Lukens.

Mr. Counsel, have you another witness?

Mr. COBURN. Yes.

Mr. FANELLI. Mr. Chairman, is the witness excused?

Senator SYMINGTON. The witness is excused. Thank you, Mr. Fanelli.

Mr. FANELLI. Thank you very much, Mr. Chairman.

Mr. COBURN. Mr. Kent H. Crowther.

Senator SYMINGTON. Mr. Crowther, are you here?

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. Will you raise your right hand, please?

Do you swear the testimony you give this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CROWTHER. I do.

Senator SYMINGTON. Proceed, counsel.

Mr. COBURN. May we have your name and address, please?

TESTIMONY OF KENT H. CROWTHER, SUPERVISORY ACCOUNTANT, CIVIL ACCOUNTING AND AUDITING DIVISION, GENERAL ACCOUNTING OFFICE

Mr. CROWTHER. Kent H. Crowther, 218 East Marshall Street, Alexandria, Va.

Mr. COBURN. I believe you are on the staff of the General Accounting Office, are you not?

Mr. CROWTHER. Yes, sir; I work for GAO.

Mr. COBURN. At my request, did you make a study of the audits that were filed by the American Chrome Co. with the Government as they were required to do in the performance of this contract?

Mr. CROWTHER. Yes, sir; I have.

I have made a summary of the income and the equity sections from the statements that were prepared by the certified public accountant in Billings, Mont., and also from the statements that were prepared by the company, which are substantially the same.

Mr. COBURN. And are in the files of the GSA?

Mr. CROWTHER. These are in the GSA files.

We, of course, GAO, has not made an audit of this, nor have I, but the summary that I have made has come completely from the statements that have been prepared from those two sources.

Mr. COBURN. As I understand it, you have not made an audit of the corporation's books, but you made a study of these annual audits that were filed by the company with GSA during the performance of the contract?

Mr. CROWTHER. Yes, sir. Those that were prepared by certified public accountants.

Mr. COBURN. Yes.

Now, Mr. Crowther, would you tell us, first, the date that the American Chrome Co. was incorporated?

Mr. CROWTHER. Yes, sir. This is a Nevada corporation, formed December 29, 1950.

Mr. COBURN. Now, at the time that the company was organized, will you tell us what assets the company had?

Mr. CROWTHER. Yes, sir. The statements that we have do not go back quite that far, but we have them in 1952, and in 1952 when——

Senator SYMINGTON. What part of 1952?

Mr. CROWTHER. December 31, 1952.

This gives a pretty good picture of what they must have had at the earlier stage, what they had at that time. They had issued capital stock in the amount of $1,872,000. This stock was represented by the writeup of mining rights above cost. In other words, this is the appraisal portion of this of $1,633,782. This left the cost of the investment to the investors and the parent corporation of $238,218, and this is represented, then, by the cost of the mining rights to the parent company of $19,218, and the stock issued for other net assets and for services in the amount of $219,000. Those two together then make up the cost of the investment of approximately $238,000.

Senator SYMINGTON. I think I understand that, but what was paid in, actual cash paid in, to the American Chrome Co.?

Mr. CROWTHER. It probably would be this $238,000.

(The following information was subsequently supplied:)

AMERICAN CHROME CO.

Cost of investment as determined from Dec. 31, 1952, published financial statements

Capital stock issued and outstanding	$1,872,000
Less stock issued for writeup of mining rights above cost	1,633,782
Cost of investment	238,218
Cost of investment, represented by:	
Cost of mining rights to parent company	19,218
Stock issued at par for services	15,000
Stock issued at par for land and buildings	[1] 188,000
Stock issued for other net assets	16,000
Total	238,218

[1] See the following:

Recorded appraisal value of land, buildings, etc	$1,367,205.73
Less writeup of land and buildings above book value to appraised value	1,043,705.73
Book value	323,500.00
Less cash consideration given (from loans or other than invested capital)	135,500.00
Balance: stock issued at par value for land	188,000.00

Senator SYMINGTON. Not necessarily, if they are getting stock for services.

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. If they express it as an asset against the stock issue, it would not be cash?

Mr. CROWTHER. No, sir.

With that exception, it would be, of course, Senator, less than $238,000——

Senator SYMINGTON. That is a pretty high exception.

Mr. CROWTHER. Oh, it could be just the $19,000; yes, sir.

Senator SYMINGTON. Do you have reason to think it was more than $19,000?

Mr. CROWTHER. Yes, sir.

They did purchase some land and buildings that were here.

Senator SYMINGTON. Who owned the land and the buildings?

Mr. CROWTHER. I do not really know who owned them. They purchased them, though.

Senator SYMINGTON. If they were owned by the lessor, how do you know they were bought?

Why could it not have been paid for with the royalty on the property?

Mr. CROWTHER. They actually entered on to their records which were audited cost of some of this property.

Senator SYMINGTON. How much, then, was the paid-out total? That is what I would like to get at.

Mr. CROWTHER. In cash, I do not know the answer, nor do these statements tell the answer. We can only approximate them.

Senator SYMINGTON. So it could have been anywhere between nothing, to the best of your knowledge, and $238,000?

Mr. CROWTHER. That is right, sir.

Senator SYMINGTON. Thank you, Mr. Counsel.

Mr. COBURN. All right.

Now, have you told us the entire capital structure of this company?

Mr. CROWTHER. Yes, that is the cost of the investment.

Senator SYMINGTON. One more question I would ask:

Did they express, as a liability on this balance sheet, a loan from Goldfield?

Mr. CROWTHER. Yes, sir; they did.

They had land, buildings, and equipment on here at $1.3 million. Of this, $1 million of it was appraisal surplus. They wrote them up above cost to that extent. That left cost at approximately $323,000, and this was shown as being represented on the liability side by an outstanding debt to the parent corporation of approximately $271,000.

This was at the end of December, December 31, 1952, and possibly part of it could have been paid off or more or less since then.

Senator SYMINGTON. I think that is clear.

When we get to the $271,000, you add $19,000 and get $290,000.

Would you say, as an accountant, that the actual amount of cash put in this company might be $19,000?

Mr. CROWTHER. I would suspect so; yes, sir.

Senator SYMINGTON. So would I, based on your figures.

Mr. CROWTHER. Yes, sir.

Mr. COBURN. All right.

Now, Mr. Crowther, can you tell us what the profits of the company were before taxes for each year and the total?

Mr. CROWTHER. Would you like me to read them for each of the years, or give it to you in total?

Senator SYMINGTON. The total first.

Mr. COBURN. Give us the total first, and then you can give us the years.

Mr. CROWTHER. Yes, sir.

Before a provision for income tax, depreciation, or depletion, their income over the entire period of the contract through September 30, 1961—that is the last information we have—was $7,853,881.32.

This is the income excluding those items.

Senator SYMINGTON. Is that after royalty payment?

Mr. CROWTHER. No, sir.

This was before royalty, before depreciation, and before income tax.

Senator SYMINGTON. Let us forget the income tax and let us forget the depreciation.

What was the royalty, total royalty, against that $7,853,000?

Mr. CROWTHER. I did not figure the royalty payments.

Senator SYMINGTON. That is all right. Would you supply it for the record?

Mr. CROWTHER. Yes, sir, I would be glad to.

(The information requested is as follows:)

AMERICAN CHROME CO.

Schedule of mining royalty expenses for period from January 1, 1952, through September 30, 1961, as determined from published financial statements [1]

Year:	*Amount*
1952	$6,000.00
1953	77,486.36
1954	350,970.83
1955	315,949.20
1956	309,955.50
1957	320,104.20
1958	338,828.82
1959	312,763.30
1960	307,426.87
1961 (9 months)	237,985.02
Total	2,577,470.10

[1] Royalty payments were carried in the financial statements as an item of production cost, and, therefore, are not to be construed as a reduction of the income figures contained in the same statements.

Mr. COBURN. We would like to have a total of the royalty payments paid during the course of the contract, and then, if you will give us the balance, subtracting that, in other words, from the figure of profit that you have just given us.

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. Mr. Crowther, I want to ask you one more question here:

Was the depreciation a depreciation over the period that the contract ran, or was it an accelerated depreciation, or was it the standard mining depreciation?

You call it depletion, the same thing.

Mr. CROWTHER. They had both depreciation and depletion here, sir. They purchased mining rights, and the Securities and Exchange Commission made them write their mining rights back down to cost, so they ended up depleting, for financial purposes, the cost of the mining rights, which was a very small figure. They only took in depletion about $8,000 total in depletion.

Senator SYMINGTON. In total?

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. You mentioned the Securities and Exchange Commission. Did they market this stock?

Mr. CROWTHER. Evidently they did, because they filed registration statements with the Securities and Exchange Commission.

Senator SYMINGTON. Did they list it?

Mr. CROWTHER. I do not know that, sir. The auditor's reports have information in them about the SEC and what SEC required them to do regarding certain accounts. This leads you to believe that they must have gone public.

Senator SYMINGTON. Thank you.

Mr. COBURN. What did the SEC make them write the mining rights down to? What value was placed on them? It must have been a small figure.

Mr. CROWTHER. Oh, it was. They made them write them down to cost, which was——

Mr. COBURN. That is what I want, is the cost of the mining rights.

Mr. CROWTHER. Yes, sir.

I have those figures. Less the $19,000 figure that I gave you is the cost of the mining rights.

Senator SYMINGTON. What you are saying is they made a gross profit of $7,853,000 on a possible investment in cash of $19,000, is that correct?

Mr. CROWTHER. Giving them the benefit of the doubt, I would say $238,000. You could use that as your comparison for return purposes.

Senator SYMINGTON. Might that be a loan, though?

Mr. CROWTHER. No, sir.

They issued capital stock for this. They had a loan from Greenfield also, but they issued capital stock for the services, for the land and buildings that they bought, and for the rights.

Senator SYMINGTON. If you issue capital stock for services, that is not an investment.

Mr. CROWTHER. No, sir.

Senator SYMINGTON. You issue for future services or past services, but it is not an investment.

Mr. CROWTHER. No, sir, but we do not know how much they did.

Senator SYMINGTON. But even if they put all of this money in cash, $290,000, that is a right tasty profit with no risk, is it not?

Mr. CROWTHER. Oh, it certainly is.

Even if you take net profit on this after taxes, depreciation, depletion and everything else, it is still about a 200 percent return per year on the money.

Senator SYMINGTON. With no risk.

Mr. CROWTHER. I can see none.

Senator SYMINGTON. I cannot, either.

And you do not generally figure your return after taxes. You figure your return before taxes, do you not?

Mr. CROWTHER. That is true.

And you get this return before taxes, and it comes up to about 400 percent.

Senator SYMINGTON. It would be slightly over 400?

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. Based on 52 percent, would it not?

Mr. CROWTHER. Yes, sir, slightly over 400.

Senator SYMINGTON. Mr. Holderer said he thought a fair profit before taxes was, I think he said 8 to 10 percent, did he not?

Mr. CROWTHER. Something like that, yes, sir.

Senator SYMINGTON. So this profit would seem to be right fair, if it was over 400 percent.

Mr. CROWTHER. Substantially, way over that.

Senator SYMINGTON. And that 400-percent profit ran right along over a period of the term of the contract, did it not?

Mr. CROWTHER. Yes, sir, it did.

We are giving you the average, of course, and about 1958 was the time that their profits hit the highest.

Senator SYMINGTON. I am sorry, I did not hear your last answer.

Mr. CROWTHER. The highest point was about 1958, when they made the largest profit in any one year, but this fluctuates with the amount of ore that they tendered to the Government and also——

Senator SYMINGTON. That would be tailed off against the 900,000 tons.

They might make more or less profit in the year, but over the whole contract there was over 400 percent profit before taxes?

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. On investment the minimum would be $19,000; the maximum would have been?

Mr. CROWTHER. $238,000.

Senator SYMINGTON. $238,000?

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. Well, Senator Thurmond, I think you and I are in the wrong business.

And no risk?

Mr. CROWTHER. I can see no risk.

Senator SYMINGTON. When the contract was signed, that was the end of the risk, was it not?

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. Proceed, Mr. Counsel.

Mr. COBURN. Mr. Witness, I want to make sure that we understand your testimony.

As I understand you, you say from your examination of these audits, as near as you can tell, the assets the company had when it started in business consisted of land and buildings and mining rights?

Mr. CROWTHER. Yes, sir.

Mr. COBURN. This $19,000 figure that we have talked about here as if it might be cash actually was just the value of the mining rights that the SEC finally forced them to accept, is that not right?

Mr. CROWTHER. Yes, but this reduced it to cost, so I suspect they probably did pay the full $19,000 cash for these mining rights.

Mr. COBURN. In cash for the mining rights?

Mr. CROWTHER. Yes, sir.

Mr. COBURN. And then the balance of this $238,000, that would be $219,000 over and above the $19,000 in mining rights?

Mr. CROWTHER. Yes, sir.

Mr. COBURN. Consisted of land and buildings?

Mr. CROWTHER. And services.

Mr. COBURN. And services?

Mr. CROWTHER. Yes, sir.

Mr. COBURN. Now, the land and buildings, was that the value that they placed on the land and buildings?

Mr. CROWTHER. Oh, no.

Mr. COBURN. Or was that what they paid for the land and buildings?

Mr. CROWTHER. No, I am telling you this is what they paid for the land and buildings.

Mr. COBURN. So the $219,000 represents what they paid for the land and buildings and services, whatever they were?

Mr. CROWTHER. Yes, sir.

Mr. COBURN. But you cannot tell how much of the $219,000 is for services and how much for land and buildings?

Mr. CROWTHER. This is in the initial investment. They undoubtedly got additional loans because the Government made them loans, and they used those loans to buy land and buildings, but we are talking about the initial investment.

Mr. COBURN. That is what I am talking about, too.

Mr. CROWTHER. Yes, sir, right.

Mr. COBURN. So you cannot tell from the $219,000, the nature of the investment, how much is for land and buildings and how much is for services?

Mr. CROWTHER. No, sir.

Mr. COBURN. All right, no further questions, Mr. Chairman.

Senator SYMINGTON. Senator Thurmond?

Senator THURMOND. As I understand it, the company had a profit of 400 percent before taxes, or about 200 percent after taxes; is that right?

Mr. CROWTHER. Yes, sir.

Senator THURMOND. What did that 200 percent amount to? In other words, what was the net profit in dollars and cents?

Mr. CROWTHER. $4,226,177.03 is their net income for that complete period after taxes, depletion, depreciation, and everything.

Senator THURMOND. In other words, this company netted $4,226,177.03 after taxes, after royalties, depreciation, and everything was counted in, all expenses, this was the net profit?

Mr. CROWTHER. Yes, sir.

Senator THURMOND. And that amounted to 200 percent?

Mr. CROWTHER. Yes, sir; using their investment of $238,000.

Senator THURMOND. Based on the investment of $238,000?

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. Which was a maximum.

Senator THURMOND. Which was a maximum amount, and it is possible that only $19,000 of that was cash?

Mr. CROWTHER. Yes.

Senator THURMOND. That is all, Mr. Chairman.

Senator SYMINGTON. That would be 2,000 percent on the basis of those figures.

Mr. COBURN. On the basis of their investment.

Senator SYMINGTON. On the original investment.

Mr. CROWTHER. I said per year, 200 percent per year. This would be 1,774 percent on the total return net income, but per year it would be 221 percent.

Senator SYMINGTON. Will you do the committee a favor?

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. We are in hundreds and hundreds of percent profits, and now we are in thousands of percent profit.

Will you tell the Comptroller General we would appreciate an analysis of the percent of profit before segregated charges; such as depreciation, depletion, and income tax. We would appreciate that from you.

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. Based on the best information you can get.

Mr. CROWTHER. For submission for the record here?

(The information requested is as follows:)

AMERICAN CHROME CO.

Summary of return on investment, by comparison of cost of investment with income, as reported on published financial statements

Year	Cost of investment in American Chrome Co.	Before taxes, depreciation, and depletion		After taxes, depreciation, and depletion	
		Income	Percentage return on investment	Income	Percentage return on investment
1953 (4⅔ months)	$238,218	($145,504.48)	−61	($200,688.86)	−84
1954	238,218	649,804.17	273	460,886.51	193
1955	238,218	306,636.13	129	110,819.35	47
1956	238,218	647,981.76	272	344,246.11	145
1957	238,218	903,141.93	379	529,725.33	222
1958	238,218	1,471,061.34	618	934,201.62	392
1959	238,218	1,324,790.54	556	657,666.16	276
1960	238,218	1,393,118.32	585	690,530.54	290
1961 (9 months)	238,218	1,302,851.61	547	698,790.27	293
Total	238,218	7,853,881.32	3,297	4,226,177.03	1,774
Average per year (8 years)	238,218	981,735.16	412	528,272.13	222

Senator SYMINGTON. Right.

Stories about such profits have been going around this town for years. Once again, the purposes of this subcommittee are, first, to get the information before the people. The people have the right to know the truth, and they could only obtain truth through the declassification of this information now being furnished the people through these hearings.

The second point we want to know is if there were any unconscionable profits.

Not too long ago a great leader in the aviation industry protested to me they were being allowed less than 4 percent profit in aeronautics whereas the automobile companies in his line of business were being allowed 5 to 6 percent profit.

In those cases the risk was obviously infinitely greater than the risk here, where people were making hundreds of percent profit. This is the type and character of tragic operation with respect to protection of the taxpayer's dollar that this committee intends to pursue.

Mr. CROWTHER. I thank you for coming up here and giving us those figures. To be sure we understand what they are, if you will strike off the costs as against the profit, and the percentages, we would appreciate it.

Mr. CROWTHER. I will.

Senator SYMINGTON. Senator Thurmond?

Senator THURMOND. Would you give me the date of execution of that contract and the period for which it was to run?

Mr. CROWTHER. April 21, 1952, was the date the contract was executed.

Senator THURMOND. April 21, 1952, the contract was executed?

Mr. CROWTHER. Yes, sir.

Senator THURMOND. And for what period was it to run?

Mr. CROWTHER. Eight years, commencing with the first production year, and this was for 900,000 dry tons of chrome concentrates.

Senator THURMOND. 900,000 dry tons?

Mr. CROWTHER. Yes, sir.

Senator THURMOND. So the contract is now completed?

Mr. CROWTHER. I think so.

I think someone just testified that they had received the full, or 68 tons less than the full 900,000.

Senator THURMOND. From April 21, 1952, for 8 years would be, of course, to April 21, 1960, or 9 years, as I understand it, 1 more year.

Mr. CROWTHER. One more year for production; yes, sir.

Senator THURMOND. 1961.

And the company made over $4.25 million putting up practically no assets over that period of time?

Mr. CROWTHER. Yes, sir; that is what the financial statements represent.

Senator THURMOND. And the taxpayers of this country paid for it?

Mr. CROWTHER. Yes, sir.

Senator SYMINGTON. And the results are worthless so far up to date, are they not?

Mr. CROWTHER. I could not testify to that, but I hope they are not.

Senator SYMINGTON. The testimony has been they do not know where to sell any of it.

Mr. CROWTHER. It certainly has.

Senator SYMINGTON. And I never found anything worth much if you could not sell it for any price.

Mr. CROWTHER. Yes, sir.

Senator THURMOND. That is all, Mr. Chairman.

Senator SYMINGTON. Thank you, Senator Thurmond.

Mr. Counsel, do you plan to send the evidence of this hearing to the Justice Department?

Mr. COBURN. Yes, Mr. Chairman, I think the committee should refer this matter.

Senator SYMINGTON. Would you so recommend?

Mr. COBURN. Yes; I would.

Senator SYMINGTON. Senator Thurmond, how do you feel about that?

Senator THURMOND. I move it be sent to the Justice Department.

Senator SYMINGTON. Without objection, we will poll the committee, and these hearings will be sent to the Department of Justice.

Thank you, Mr. Crowther.

(Whereupon, at 12:45 p.m., the committee adjourned, subject to the call of the Chair.)

STOCKPILE INVESTIGATION

FRIDAY, AUGUST 3, 1962

U.S. SENATE,
SUBCOMMITTEE ON THE NATIONAL STOCKPILE
AND NAVAL PETROLEUM RESERVES OF THE
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee (composed of Senators Symington (chairman), Thurmond, Engle, Cannon, Beall, and Bush) met, pursuant to notice, in room 235, Old Senate Office Building, at 10:10 a.m.

Present: Senators Symington (presiding), Thurmond, Engle, Cannon, Beall, and Bush.

Also present: Richmond C. Coburn, chief counsel to the subcommittee; J. H. Zimmer, assistant counsel; Edward O. McCue III, assistant counsel; and James J. Gehrig, special assistant to Senator Symington.

Senator SYMINGTON. The hearing will come to order.

First, I have a statement from the Honorable Robert S. Kerr, senior Senator from Oklahoma, on Government stockpiling of strategic materials.

Senator Bush, I have read this. It, in effect, is a statement that has to do with lead and zinc. I would like to file it for the record.

Senator BUSH. I have no objection. I would like to take a look at it.

(The statement of Senator Kerr referred to follows:)

STATEMENT OF ROBERT S. KERR, A U.S. SENATOR FROM THE STATE OF OKLAHOMA

It seems hardly necessary to go into the matter of why we have a stockpile and how the stockpile was developed—to the people of Oklahoma. Two of the metals included in the stockpile are of great significance to Oklahoma. The tri-state mining area and the three zinc smelters of the State have, since statehood, played an important role in the general economy and wellbeing of the people of Oklahoma, both from the standpoint of income and of employment.

From time to time the lead and zinc industry has found itself in difficulty, due to the importation of these commodities from foreign areas and the industry has asked for tariff protection. They did not ask for the stockpile. However, they were grateful for the opportunity of participating in the program both from a patriotic standpoint and, of course, for their own economic well-being. The industry's case for reasonable tariff protection has been so consistently made, on such a firm basis, that I have from time to time introduced legislation to bring about the tariff protection which I felt the industry was entitled to. I think it is significant that the last bill which I introduced as an amendment passed both the committees of the House and Senate unanimously.

We are not here today to argue the question of tariff protection, notwithstanding the fact that the industry has been for tariff protection by legislation even in times when Congress failed to give it to them. I recall that in 1954 a tariff provision failed in the Congress. The Tariff Commission had recommended a higher tariff, but President Eisenhower instead gave the industry an increased purchase under the long-term stockpile program in lieu of tariff increases.

As we review the history of the strategic materials stockpile and look at the several items which are now considered to be, by some, in surplus, I think it is well to recognize that much of the lead and zinc presently in the stockpile is from foreign sources. This came about partially as a result of the barter program and partially from the stockpile purchase program. It should be recalled that Secretary Dulles asked the importing nations to restrain themselves and not take advantage of the lead and zinc stockpile program of 1954. The record will show that imports of slab zinc into the United States rose sharply subsequent to 1954, as follows:

Year:	*Tons*
1954	156, 858
1955	195, 695
1956	244, 978
1957	269, 034

As indicated, we have taken a great deal of zinc off the hands of foreign producers. Surely it is not out intention now to force it on the American market to the detriment of American producers only. It should be remembered that we are still maintaining quotas on slab zinc which guarantee a fixed share of our market to foreign producers. If we really intend to release a substantial amount of this foreign-origin zinc, I believe that we would have to do it by reducing quotas on imported slab zinc on a direct ratio to the release from the stockpile. Undoubtedly, this would cause complications and protests from foreign countries with whom we have made agreements.

We have had a national policy relative to the stockpile of metals and minerals for 23 years, so this matter cannot be considered partisan. Only last year a large barter acquisition for the stockpile of foreign pig lead was made. A great many U.S. dollars and considerable administrative effort have gone into procuring and establishing the stockpile. For my part I am not concerned about the surplus. In fact, in view of the manifold uses of the basic nonferrous metals, there is no question in my mind that these stockpiles are an important national asset and an asset that is not perishable. I, for one, am more satisfied and feel more comfortable with a surplus than with a scarcity.

While we must consider very thoroughly the budgetary aspects of the matter and the desirability of saving taxpayers' dollars, it seems to me that there are other elements which I feel are equally important in formulating a national policy.

When these materials were acquired from foreign and domestic producers, it was with the expressed understanding, backed by the word of the U.S. Government, that they would not be disposed of except under stringent safeguards which were written into law at the time of these acquisitions. I feel that this understanding should not be terminated in an abrupt manner and all elements should be thoroughly considered before we enter into any new and drastic program.

In my opinion, the draft bill being considered contemplates an emergency action which I do not feel is based upon an emergency situation. There are concrete matters of national interest to be considered. To take an extreme example—the strategic goal for zinc until recently was held to be 1,256,000 tons. Now we are advised that the strategic requirement is 178,000 tons, equivalent to about 2 months' consumption. If the strategic demand has changed that much in one direction, there may arise a situation which would change it in the opposite direction to a similar degree.

Also, we cannot look at stockpiles strictly from a strategic viewpoint. Any warlike action would make demands for strategic purposes and, at the same time, require civilian and industrial buildup, whether it be here in the continental United States or in a nation with which we are politically involved. I do not know, but doubt, that these essential requirements have been considered in the new stockpile requirement.

Fortunately, the mobilization base of North America in some of the metals has grown stronger, in part because production facilities in the United States, Canada, and Mexico have increased in the last 15 years. May I say that the stockpile program has done its share in bringing this about, but we must keep in mind that the availability of raw materials on the North American Continent does not mean availability of refined metals for strategic use or for reconstruction. The metal producing process of our domestic mobilization base is in itself vulnerable, depending as it does on transmission lines, pipelines, railroads, waterways, and on plants and communities that are intact. In looking over these new surplus figures, one wonders how much has been allowed for these factors. Furthermore, a ready stockpile of metals is a useful asset in the cold trade war

as we have seen from several recent experiences, and keep in mind that the use of zinc and some of the other metals in the stockpile is increasing. The industry itself is engaged in important programs of research and development. I am convinced that uses that we cannot even contemplate today are not too far distant. To base requirements on today's use may well mean underestimating the need for future requirements and possible future emergencies.

I hope that we can reappraise the value of having stockpiles and the overall national requirement of each metal. In that reappraisal consumers and producers, including some of our regular foreign suppliers, should have an opportunity of having their views considered. Such an all-round appraisal might draw some valuable conclusions—in fact, it might help in finding more effective ways of disposal, if disposal be decided upon.

The reappraisal need not take undue time. The information and the experts in Government and industry are ready. It is a matter, it seems to me, of making a fully implemented determination after hearing legitimate views. This determination could perhaps be undertaken by an administrative agency after hearings. The final affirmative decision on disposals above limits to be determined should remain with Congress.

Any disposal procedure so arrived at, including disposals for use by government agencies, should contain rules and yardsticks that will preclude economic injury. I am concerned about the budgetary aspect of this matter, but I do not want to be pennywise and pound (strategic material and strategic industries) foolish. I do not believe in disposal for disposal's sake. I believe that the domestic producers are entitled to protection. Ways can be found, I am sure, to avoid disruption of their markets and layoffs of more men.

These safeguards should be written into law—as was always contemplated—not left to administrative discretion. The power to dispose of the giant U.S. stockpile is the power to destroy. Congress should continue to share in this power and in this responsibility.

Senator SYMINGTON. Mr. Counsel, I notice Secretary Weaver is with us again.

But do you have something that you would like to file?

Mr. COBURN. Yes.

Mr. Chairman, before we start with the testimony this morning, Senator J. Glenn Beall, of Maryland, a member of this subcommittee, had written a letter to the chairman of this subcommittee with reference to some chlorides that were stockpiled in New Jersey, that were reported to be deteriorating.

We had a copy of a letter back from the General Services Administration, with reference to the condition of this material.

I would just like to file it for the record. I do not think it is necessary to read it.

I do want to offer it for the record, as Senator Beall wanted.

Senator SYMINGTON. Without objection, it will be filed.

Mr. COBURN. Maybe I had better identify this a little better.

I offer for the record this letter of Senator J. Glenn Beall, July 20, 1962, to the chairman of the committee, and a copy of a letter of the Honorable Bernard L. Boutin, Administrator of GSA, to Senator J. Glenn Beall, dated June 26, 1962, with reference to the condition of some stockpiled rare earth chlorides at a point in New Jersey.

(The letters referred to follow:)

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
July 20, 1962.

HON. STUART SYMINGTON,
Chairman, Stockpile Subcommittee, Senate Armed Services Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: Recently some very alarming reports reached my office that rare earth chlorides stockpiled at Somerville, N.J., were deteriorating and, in fact, becoming dengerously radioactive. I wrote to Bernard L. Boutin, Administrator of the General Services Administration, and his reply is enclosed.

Since this particular matter might well come under the consideration of this subcommittee at some time in the future, I respectfully request that Mr. Boutin's letter of reassurance be made a part of the record of our subcommittee's hearings.

With all good wishes, I am

Sincerely yours,

J. GLENN BEALL.

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., June 26, 1962.

Hon. J. GLENN BEALL,
U.S. Senate, Washington, D.C.

DEAR SENATOR BEALL: Your letter of June 18 requested information concerning the condition of drums containing rare earth chlorides stockpiled at Somerville, N.J.

A survey which was made by members of our staff, on March 19 and 20, 1962, indicated that the general condition of the containers is quite satisfactory. Of the total quantity of 5,376 drums stored, 1 drum was found punctured and oozing a very small amount of material; all other drums were found to be airtight and showed no evidence of deterioration.

The drums presently in storage have a useful life for many years to come with a minimum of maintenance required. These drums are under more than ordinary surveillance and, when pinholes or rust spots appear, necessary corrective action is taken to cement the holes, wirebrush the rust spots, and paint the cleaned surface area.

Sincerely yours,

BERNARD L. BOUTIN, *Administrator.*

Senator SYMINGTON. Before we start the hearing—I must be at another hearing at 10:30, in the Foreign Relations Committee, which I have agreed to attend. In my absence, Senator Cannon will chair. If he cannot stay, Senator Bush, I would appreciate it if you would chair this hearing.

Senator BUSH. All right, Mr. Chairman.

Senator SYMINGTON. Proceed, Mr. Counsel.

TESTIMONY OF GEORGE L-P. WEAVER, ASSISTANT SECRETARY OF LABOR, INTERNATIONAL AFFAIRS—Resumed

Mr. COBURN. Well, now, Mr. Chairman, I had concluded my questions of Mr. Weaver when we adjourned the other day. So for the moment, at least, I have nothing more to ask him.

Senator SYMINGTON. Senator Cannon, do you have any questions to ask with respect to the tin picture?

Senator CANNON. No; I have not.

Senator SYMINGTON. Senator Bush, have you any questions you would like to ask?

Senator BUSH. No.

Senator SYMINGTON. Mr. Coburn, if you have any other questions you may proceed.

Mr. COBURN. Mr. Weaver, the other day during the course of the hearings on the subject of tin, there was some discussion with reference to the tin disposal plan which has approved the disposal of 50,000 tons of tin, but which plan has not yet started. I understand from GSA that shortly this plan will be made effective, and they will begin the disposal of tin.

I am sure the committee would be very glad to hear from you as to any suggestions or ideas that you might have with reference to standards or restraints that might be applied to the disposal plan in the interest of an orderly disposal.

Senator SYMINGTON. If counsel will yield—I understand the disposal was relatively small—about 300 tons.

Mr. COBURN. No; this is 50,000 tons.

Senator SYMINGTON. I understand—but 300 tons a week.

Mr. COBURN. Yes, sir.

Senator SYMINGTON. I think the witness ought to know this, especially based on some of his other testimony. The steel companies were very anxious that some tin be made available, because the tin price was sliding up, and they felt they could hold down the price of galvanized steel if some were available. So although the quantity available is relatively high, the amount they may sell per week is relatively low.

Proceed, Mr. Counsel.

Mr. COBURN. Now, do you care to comment on my question, Mr. Weaver?

Mr. WEAVER. Well, Mr. Counsel, I think first, at the outset, that it should be observed that a review of the history of the price movement, as well as production, in tin over the last 10 years, dating from the entrance of the RFC and the policies that the RFC established during the period of 1951 and 1952, had a very salutary effect on the price range of tin from our point of view, from our best interests.

I think the history of this period will indicate that the range of price stayed very closely within the figure that represented the agreement entered into by our Government with the British Government, which broke the log jam in tin.

I think that suggestion, that this was a very important contribution to, not only our Government, but a very important contribution to the tin-producing countries, because it represented a stabilization that eliminated the kind of speculation that haunted us from the beginning of the Korean conflict until this exercise was concluded by the RFC. And I think it suggests several policies or routes that could be followed, that would provide the maximum protection to our Government and the users of tin as well as to the producing countries.

In this disposal plan, I think, taking into consideration the policies that were established and the results that flowed from it, it suggests a kind of policy that would be of benefit to the consumers as well as to the producers.

Mr. COBURN. Do you have any suggestions as to what might lead to an orderly disposal of the tin in this plan?

Mr. WEAVER. Well, another development that resulted from this exercise was the change of attitude and the changes of policies of the producing countries.

The Senate Armed Services Preparedness Subcommittee referred to the tin producers of that day as a cartel, and they had all of the characteristics, their operations had all the characteristics of a cartel.

However, as a result of the policies during the RFC period, this group of producers, now organized with the consuming countries, and the International Tin Council, that has United Nations sanction, has formed a council whose policies are policies that we could subscribe to.

Among this council's efforts to maintain a stable price situation, as well as to encourage production, they created a buffer stock.

This buffer stock has operated over the last 5 or 6 years. It has operated in a manner attempting to stabilize prices. And I would think that in the disposition of the tin under our disposal plan, we

could work out with the International Tin Council a method that fulfills their principles; that would protect the consumer and prevent a runaway price situation, as well as protecting the producing countries, because the producing countries have a great interest in maintaining a price situation in order to maintain the level and increase the level of production to meet the consuming needs, and they have an equal interest with us in maintaining a stable tin market.

Mr. COBURN. I wonder if you would care to comment on the possibility of our permitting the Tin Council—that is, the buffer stock of the Tin Council—to make purchases from the stockpile under this disposal plan, rather than selling the tin in the open market if the price fell to a certain point during the disposal.

Mr. WEAVER. I think, sir, that this could very easily be done and would be a move in the direction of protecting the consumers, as well as protecting the producers.

I would suggest that the history of the last 10 years indicates that the price level established by the RFC, within the range of this price level, is a fair price level, because there has been a consistency of a price around a level that was developed during this exercise of the RFC.

We could agree upon a ceiling in this neighborhood and a cutoff price. I think very important on the cutoff price, though, that it must be tied to a price that would enable the maintenance of production, because if we take Malaya, for example, which I think is accepted as a low cost and efficient producer, 50 percent of the tonnage is produced by dredges, which is the most efficient, the most profitable way of producing it; 40 percent is produced by gravel pump, which is a less efficient, more costly method of producing. But it represents 40 percent of production.

Now, if the floor price is below the price where these producers can stay in business, it cuts out that tonnage as well as putting pressure on the market to push the price up, because the market would be that much shorter.

And so I thing there has to be a floor, as well as a ceiling.

With the buffer stock, plus our stockpile, I think that we have ample insurance to protect our consumers from another runaway market situation as we experienced 10 years ago.

Mr. COBURN. Then it would be your recommendation that if the price of tin during the disposal plan fell to a certain point, the buffer stock would be given the opportunity of buying the tin before it was offered to the general market.

Mr. WEAVER. Yes, I think this would work very well.

Mr. COBURN. Now, the United States is not a member of the Tin Council. I think we developed that the other day.

Mr. WEAVER. That is true, sir.

Mr. COBURN. Although we are the largest consumer in the world, are we not?

Mr. WEAVER. That is true.

Mr. COBURN. And with this very large amount of tin we have in the stockpile, we are also in the position of a country that has a large mine and a large smelter, are we not?

Mr. WEAVER. That is true, sir.

Mr. COBURN. So we really are both a large consumer and a large producer at the present time.

Mr. WEAVER. That is true.

Mr. COBURN. And for the foreseeable future.

Would you care to comment on the advisability, in your judgment, of the United States being a member of the Tin Council?

Mr. WEAVER. Well, sir, I think that we could well become a member of the Tin Council, not only to protect our own interests, but it would be a position step toward working out, over a long period, a stable market situation in tin.

The fact that we have this large stockpile of tin would enable us to protect ourselves on the price end as well as on the production end.

The operation of the Tin Council, which is now an official group—the purposes in the operation of the Tin Council are purposes that we could well ascribe to.

Senator SYMINGTON. Would counsel yield?

Mr. COBURN. Yes, sir.

Senator SYMINGTON. This committee wants to do whatever is right. We want to help the tin industry if possible, not hurt it. But we do not want to see, as a result of any cartel operation, exorbitant prices come back into tin, which you and I both know was true in recent years.

The Texas City tin smelter, as I remember it, was built under Mr. Jones of the RFC to handle low grade Bolivian ores.

Mr. WEAVER. Yes, sir.

Senator SYMINGTON. It is a smelter now owned by private industry.

You mentioned, I think, in your last testimony that the Malayan Government did not have any appreciable smelter capacity.

From the standpoint of controlling price and being in a position to be of assistance to Bolivia under the proper terms and circumstances, if we could maintain this smelter outside of the cartel setup so that ores from not only Bolivia, but also from the Far East, specifically a country like Malaya now on its own, could be smelted there—wouldn't that be constructive?

Mr. WEAVER. Yes, sir. I must confess that I have not been able to find out the reasons why the stockpile—I mean the smelter was disposed of. I must admit it was a very important asset to our Government during the period that we were actively engaged in tin, and it also was a very good standby asset to our Government in terms of not finding ourselves deprived of the ability to smelt the Bolivian ores in case of warfare.

I am at a loss to explain why we disposed of the smelter.

Senator SYMINGTON. Based on what I know of the record, I think it was an effort to get the Government out of business, which is a principle I am all for. But whether it is owned by private industry or whether it is owned by Government—if it were owned by some not part of the cartel, it would be a break from the standpoint of future runaway prices, would it not if Bolivian ore and other ore could be smelted there?

Mr. WEAVER. I think it is a very important instrument for that purpose.

Senator SYMINGTON. Do you think it would be worth further study on the part of the subcommittee?

Mr. WEAVER. I do, sir.

Senator BUSH. Will the Senator yield there?

Who owns that smelter now—do you know?

Mr. WEAVER. It is owned by a private combine. I am not sure enough of the facts, sir, to attempt to put it on the record.

Senator SYMINGTON. I believe—may be wrong—at first it was owned by our Government and operated by an American subsidiary of the Dutch company, N. V. Billiton Co. Then that was changed and now I believe it is owned mostly by the Wah Chang Co.

Senator BUSH. That is an American corporation?

Senator SYMINGTON. I believe it is. Mr. Lee, a Chinese citizen, who may have been an American citizen before he died, was the head of it, and was interested in importing metals into this country.

I believe we will get into some aspects of all that before these hearings are over.

But if the smelter could be held over here and could handle ores from Bolivia or anywhere else that gave a fair profit to the producers, but not a profit based on a cartel operation incident to smelting, I would think that good for everybody concerned.

Counsel, I wish you would look into that further.

I would put on the record that Congressman Clark Thompson from Texas, the district of the Texas City smelter, called this morning. You might discuss that with Congressman Thompson. He is very interested.

Mr. COBURN. I will, Mr. Chairman.

I believe I have no more questions, Mr. Chairman, of this witness.

Senator SYMINGTON. Senator Thurmond.

Senator THURMOND. Mr. Weaver, when you were here several days ago, when you testified, I believe you stated that we should retain in the stockpile a sufficient quantity of tin so that if we should get into an emergency, we would have that tin and not jeopardize our security. I believe that is correct.

Mr. WEAVER. Yes, sir.

Senator THURMOND. Did you state at that time—I have forgotten whether you did or not—as to just what quantity you recommended that this country retain in the stockpile?

Mr. WEAVER. No, sir; I did not recommend a specific quantity. I think that could better be done by those who are responsible for the security, our security requirements.

I recognize there is a surplus which was the result of a decision of Congress to agree to release 50,000 tons. But I think the figure, the amount of tin that we have in the stockpile should be determined upon several factors other than strategic.

One is the rate of production. The world faces a tin shortage, while we in the United States have a surplus. But that surplus represents, in my opinion, the best insurance against the kind of runaway price situation that we experienced about a decade ago.

It also represents, I think, an important instrument in encouraging production when it is needed, as well as discouraging production when there is an overproduction of tin.

Now, there is another incalculable factor that has to be considered in this whole equation, and that is the production of tin in China, and behind the Iron Curtain. We are not sure of the statistics, we are not sure of when and where it is going to be sold. It was dumped on the market in 1958, a large quantity, which caused a severe dislocation in the market.

This is one of the imponderables, one of the incalculables that is very difficult to predict or to project.

I would hesitate, sir, to attempt to fix a specific figure of tonnage that we should keep in the stockpile.

Senator THURMOND. Are you familiar with the quantity in the stockpile now?

Mr. WEAVER. Yes, sir.

Senator THURMOND. Would you recommend that disposal be made of any of these, or that it all be retained in the stockpile?

Mr. WEAVER. Sir, I agree with the most recent action of Congress in recommending a disposal of 50,000 tons from the stockpile. I think the manner in which it is disposed of is highly important.

Senator THURMOND. But you would suggest that the rest of it be retained in the stockpile, as I understand?

Mr. WEAVER. At this time; yes, sir.

Senator THURMOND. So not only from the standpoint that we have this tin if an emergency should arise, but also from the standpoint of runaway prices.

Mr. WEAVER. Yes, sir.

Senator THURMOND. That is my recollection of your testimony when you were here before.

I might say that I have been deeply impressed with your long and dedicated service, and with your testimony before this committee, too.

Mr. WEAVER. Thank you, sir.

Senator BEALL. Mr. Chairman.

Senator THURMOND. Senator Beall.

Senator BEALL. Mr. Weaver, do you feel that the sale of tin from the U.S. stockpile would have any effect on our foreign relations?

Mr. WEAVER. Yes, sir—the method of the sale of the tin would have a great effect on our foreign relations.

Mr. BEALL. Good, or bad?

Mr. WEAVER. Well, it is according to the procedure that is devised. I think that we have to recognize that the situation has changed in the last 10 years, when we were actively engaged in establishing the policy which has prevailed, and which has protected the American consumer.

The cartel that was in operation at that time has evolved into a tin combine now, or combination that has United Nations sanctions.

The producing countries today are independent. Many of these producing countries are dependent upon tin, or one or two other commodities, for the basic income in their budget.

Now, the sudden fluctuation in the market, a grave disturbance in the market, has a bad effect on them on the economies, and it comes back on us in another way.

If I may take Malaya for example.

This is a country that gained its independence in 1957, after fighting the most, I think, vicious guerrilla warfare. It lasted from 1948—the emergency was finally declared ended in 1960.

This is a country that has a parliamentary form of government, subscribes to the same principle that we do, and, most important, it is a country that openly proclaims itself in favor of free enterprise and practices it.

It is also a country that has not asked us for any aid. They are attempting to develop themselves and diversify their economy under their own steam.

Now, they have two basic commodities, primary commodities, that they produce and export—rubber and tin.

Senator BEALL. This is Malaya you are talking about?

Mr. WEAVER. This is Malaya.

Now, a sudden dislocation of the market that results in dislocating their budget and their 5-year development plan would be bound to have an effect on us. They are our stanchest allies, as stanch as any other allies in that part of the world. And it is bound to have an effect on our foreign relations.

But I do subscribe to the principle, however, sir, that was enunciated by the chairman at the outset of these hearings, that we do have to keep as separate as possible the buying and selling of needed commodities and our foreign policy.

This is a dilemma that those who are responsible for planning—the disposal, for example—have to wrestle with.

Senator BEALL. Do you know anything about a meeting last week of the State Department with the tin producers?

Mr. WEAVER. Yes, sir, I am aware of that.

Senator BEALL. Were you there?

Mr. WEAVER. I was not there, but I was aware of the conversation.

Senator BEALL. You are not familiar with what went on at the meeting, are you?

Mr. WEAVER. No, sir.

Well, I have heard reports from it. But I was not present.

It is my understanding that there were discussions on the disposal plan and program of the Government.

Senator BEALL. Mr. Chairman—I should ask counsel—do you think it would be advisable to get a report from the State Department for our record of this meeting, what effect it would have on our foreign policy?

Mr. COBURN. We have a witness, Senator, who will testify, from the State Department, shortly and I think you can ask him questions about that.

Senator BEALL. Thank you.

Thank you, Mr. Weaver.

Senator THURMOND. Senator Cannon.

Senator CANNON. Mr. Secretary, this disposal had some effect on the market, world market. What specific effect did it have insofar as Malaya is concerned, if you know?

Mr. WEAVER. Well, the announcement—it is my understanding the announcement of the disposal caused the price to go down. I could not answer what the precise effect was, other than one of concern, which is manifested in their price within their industry.

But just looking at the economics of the situation, they have to wrestle with the problems, as I indicated in my testimony, of two different kinds of production, one much more efficient than the other. And if the price falls to where those engaged in the gravel pump method cannot stay in business, it will have an unfortunate effect on their economy.

Senator CANNON. The price, though, even today is considerably higher than it has been many years in the past, is it not?

Mr. WEAVER. Well, the price—I am not sure what the price was yesterday. The day before yesterday it was $1.08½. And that is roughly within the range of the last 8 or 9 months. But what interested me in studying the price movement in the industry, looking at it for the last 10 years—and we were engaged in the RFC in this tin exercise—has been how it has stayed—it has not pierced the ceiling—I will put it that way—except once or twice for very short periods, of the figure that we arrived at that was a fair price for a pound of tin.

We arrived in the RFC at $1.12, and in 1952, when President Truman and Prime Minister Churchill entered into an agreement, which sort of broke the stalemate, it was $1.18 Singapore, which cost us about $1.21½ in New York.

Now, if you examine the history of the price range within the last 10 years, it has stayed pretty well within the $1.18 to $1.21. And most of the time a little lower.

Senator CANNON. Thank you, Mr. Chairman.

Senator THURMOND. Senator Bush.

Senator BUSH. I have no questions.

Senator THURMOND. Mr. Counsel.

Mr. COBURN. I have no further questions.

Senator THURMOND. Thank you for your testimony. That will be all.

Mr. WEAVER. Thank you, sir.

Senator THURMOND. The next witness.

Mr. COBURN. Mr. John Croston, of General Services Administration.

Senator THURMOND. Mr. Croston, come right around.

Will you stand up and be sworn.

The evidence you give in this hearing shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CROSTON. I do.

Mr. COBURN. Although you have testified before, will you kindly identify yourself, with your name and address.

TESTIMONY OF JOHN CROSTON, DIRECTOR, ECONOMIC AND MARKETING RESEARCH DIVISION, DEFENSE MATERIALS SERVICE, GENERAL SERVICES ADMINISTRATION

Mr. CROSTON. My name is John Croston. I am the Director of the Economic and Marketing Research Division of the Defense Materials Service, which is the stockpiling portion of the General Services Administration.

Mr. COBURN. I believe you have been in charge of that Division for how long, Mr. Croston?

Mr. CROSTON. It was set up about 4 years ago. I have been in charge of it since that time.

Mr. COBURN. Prior to that you have been with General Services for some years, have you?

Mr. CROSTON. Yes, I was with General Services as a mining engineer, prior to that, and with the Defense Materials Procurement Agency, which was absorbed by the General Services Administration, and during World War II was Deputy Director of the Tin, Lead, and Zinc Division of the War Production Board.

Mr. COBURN. How long have you had with the management and operation of the stockpile?

Mr. CROSTON. Some 22 years.

Mr. COBURN. Now, Mr. Croston, at my request did you prepare a table of the contracts for the purchase and barter of tin for the stockpile?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Is it this table of three pages that is entitled at the top of the first page "General Services Administration—Tin Purchase Contracts—1939 to 1956"?

Mr. CROSTON. That is the table, yes.

Mr. COBURN. That is the table of the purchases, is it not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Which consists of two pages, is that right?

Mr. CROSTON. Well, really it would be three pages, if you include the tin acquired by barter.

Mr. COBURN. Well, I will get to that in just a moment. The purchase contracts are on the first two pages of this table?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And then the barter contracts, by which we acquired tin, are on page 3 of the table?

Mr. CROSTON. That is correct.

Mr. COBURN. Mr. Chairman, I offer this table for the record.

Senator THURMOND. Without objection, it will be included in the record.

(The table referred to follows:)

GENERAL SERVICES ADMINISTRATION

Tin purchase contracts, 1939 through 1956

Contractor	Contract No.	Execution date	Country of origin	Delivery period		Quantity (long tons)	Price per pound	Contract cost
				From	To			
A. National stockpile:								
1. Public Law 79-520:								
Reconstruction Finance Corporation.	SCM-TS-10882	Mar. 1, 1949	Bolivia-Netherlands East Indies.	March 1949	July 1949	15,004.57	$1.0267	$34,508,477
Do	SCM-TS-14341	Sept. 29, 1949	do	April 1949	October 1949	10,105.87	1.0257	23,220,094
Do	SCM-TS-14384	do	do	May 1949	December 1949	16,065.84	1.0239	36,848,540
Do	SCM-TS-16935	do	Domestic-Texas City	August 1949	September 1949	10,115.51	1.0142	22,980,900
Do	SCM-TS-21904	Feb. 9, 1950	do	February 1950	February 1950	2,895.37	.7400	4,799,173
Do	SCM-TS-23346	Feb. 20, 1950	do	March 1950	March 1950	2,006.22	.7450	3,347,978
Do	SCM-TS-23557	Mar. 29, 1950	do	do	April 1950	2,005.12	.7509	3,372,828
Do	SCM-TS-23519	Feb. 20, 1950	do	do	March 1950	2,003.78	.7722	3,466,213
African Metals Corp	SCM-TS-23530	Apr. 7, 1950	Africa	do	March 1952	9,432.10	1.2186	25,745,644
Kantor Pendjualan Hasil Tambang Negeri.	SCM-TS-23460	Apr. 11, 1950	Netherlands East Indies-processed Netherlands.	do	do	11,900.54	1.2109	32,279,757
N. V. Billiton Mastachappig	SCM-TS-23459	May 18, 1950	do	do	do	6,899.94	1.1968	18,497,586
Reconstruction Finance Corporation.	SCM-TS-25104	Apr. 21, 1950	Domestic-Texas City	May 1950	May 1950	2,006.30	.7675	3,449,228
Mining Equipment Corp	SCM-TS-25125	May 16, 1950	Netherlands	do	do	249.98	.7478	418,737
Reconstruction Finance Corporation.	SCM-TS-25198	May 26, 1950	Domestic-Texas City	June 1950	June 1950	9,928.54	.8614	19,158,742
Do	SCM-TS-25244	June 7, 1950	Domestic-Texas City	June 1950	June 1950	300.10	.7820	525,679
Do	SCM-TS-25068	June 15, 1950	do	do	do	1,502.98	.9050	3,047,050
Do	SCM-TS-25377	June 22, 1950	do	do	do	150.09	.7820	262,924
Compagnie Geologique et Miniere.	SCM-TS-25376 (ECA)	June 27, 1950	Belgian Congo	do	June 1954	690.00	1.0894	[1] 1,683,843
Reconstruction Finance Corp.	SCM-TS-25447	July 13, 1950	Domestic-Texas City	do	June 1951	601.56	.8125	1,094,921
Do	SCM-TS-25069	Aug. 24, 1950	do	do	June 1950	901.22	1.1188	2,258,427
Do	SCM-TS-26104	Aug. 4, 1950	do	do	do	75.02	1.0145	170,473
Do	SCM-TS-26237	Aug. 21, 1950	Foreign and Texas City	do	June 1951	8,100.97	1.4196	25,761,832
Do	GS-OOP-651 (SCM)	Jan. 24, 1951	Domestic-Texas City	July 1951	July 1951	85.02	1.0414	198,340
Naval Supply Depot, Mechanicsburg, Pa.	GS-OOP-612	Feb. 2, 1951	Unknown	September 1951	September 1951	754.00	1.1400	1,925,415
Reconstruction Finance Corp.	GS-OOP-717	Feb. 15, 1951	Domestic-Texas City	July 1951	July 1951	90.17	1.6219	327,589
Do	GS-OOP-725	Feb. 26, 1951	do	October 1951	October 1951	661.60	1.7673	2,619,200
Do	GS-OOP-3421	June 25, 1952	do	May 1952	May 1952	14,000.42	1.2225	38,339,144
Do	GS-OOP-3641	Aug. 14, 1952	Foreign and Texas City	August 1952	May 1954	82,213.42	1.2146	223,682,711

Defense Production Act—GSA.	GS-OOP-10563	Nov. 18, 1954	Domestic-Texas City	August 1955	May 1956	76,612.84	1.0144	174,082,935
Federal Facilities Corp.	GS-OOP-10946	Dec. 22, 1955	do	August 1956	do	12,221.74	1.0214	27,961,474
Do	GS-OOP-18332	Aug. 21, 1956		October 1956	December 1956	5,240.00	1.0487	12,309,226
Total, Public Law 520 acquisitions.						304,820.83		748,345.08
2. Public Law 76-117: 12 contracts.		Nov. 7, 1939 to Sept. 2, 1943		1939	1943	10,229.31	.4947	11,336,556
						315,050.14		759,681,636
B. * * *								
C. Separate tin inventory acquired from Federal Facilities Corp.: Federal Facilities Corp.	GS-OOP-18679	Nov. 20, 1956				3,933.2	1.0677	9,407,010

[1] Received in payment of an AID (ICA) development contract at no cost to GSA.

Tin acquired under barter contracts executed by Commodity Credit Corporation

Contractor	Contract No.	Date of commitment	Country of origin	To be delivered by—	Quantity (long tons)	Unit price per pound	Contract price
Supplemental stockpile:							
Philipp Bros. Ore Corp	BSD-SM-59-107	Apr. 28, 1959	United Kingdom [1]	Apr. 15, 1960	2,190.51	$1.0083	$4,948,006
C. Tennant Sons & Co	BSD-SM-59-110	Apr. 30, 1959	do	Dec. 31, 1960	200.94	1.0190	458,666
Philipp Bros. Ore Corp	BSD-SM-59-112	May 13, 1959	do	June 30, 1960	259.25	1.0138	588,724
Do	BSD-SM-59-138	June 8, 1959	do	Sept. 15, 1960	428.99	1.0069	967.648
The Calabrian Co., Inc	BSD-SM-59-148	June 12, 1959	Thailand [2]	Sept. 30, 1960	1,972.73	.9972	4,406,408
Philipp Bros. Ore Corp	BSD-SM-59-151	June 18, 1959	United Kingdom [1]	June 30, 1960	133.32	1.0137	302,723
Do	BSD-SM-59-152	June 26, 1959	Republic of Congo	May 13, 1960	248.23	1.0064	559,594
Do	BSD-SM-60-1	July 6, 1959	do	Mar. 18, 1960	452.44	1.0064	1,019,959
Do	BSD-SM-60-3	July 16, 1959	United Kingdom [1]	Sept. 28, 1960	987.99	1.0079	2,230,648
C. Tennant Sons & Co	BSD-SM-60-8	July 27, 1959	do	July 31, 1960	217.50	1.0094	491,796
Do	BSD-SM-60-9	do	do	May 30, 1960	303.82	1.0095	686,996
Do	BSD-SM-60-25	Aug. 25, 1959	do	do	108.87	1.0090	246,068
Total					7,504.59		16,907,237

[1] Metal processed in United Kingdom from ores and concentrates mined in Bolivia.
[2] Metal processed in United States from ores and concentrates mined in Thailand.

NOTE.—Tin acquired under these contracts was transferred to the supplemental stockpile at no cost to GSA.

Mr. COBURN. Now, Mr. Croston, so that we will all understand this table well, if we start over here on the left-hand side on the first page of this table the first column shows the source of tin acquired by the stockpile, is that correct?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Now, I notice that the Reconstruction Finance Corporation seems to have been the source in many instances, is that true?

Mr. CROSTON. That is correct.

Mr. COBURN. Now, how did that happen?

Mr. CROSTON. The Reconstruction Finance Corporation purchased tin concentrates from various parts of the world and had them smelted by the Tin Processing Corp. at Texas City. The smelter was a property owned by the U.S. Government and run by a corporation controlled by the Billiton Co.

The resultant pig tin was sold by the RFC to the GSA, to go into the national stockpile.

Mr. COBURN. So, as I understand you, then, this total consists of a list of the contracts of purchase and barter for tin metal, not tin ore or concentrates?

Mr. CROSTON. That is correct. The GSA did not buy at any time tin concentrates.

Mr. COBURN. And the contract with which the stockpile did business was the one that acquired the ore or the concentrates and rendered it into metal?

Mr. CROSTON. That is correct.

Mr. COBURN. And then sold it pursuant to these contracts to the stockpile?

Mr. CROSTON. That is correct, sir.

Mr. COBURN. Now, the next column moving to the right, of course, is the number of the contract. Then the table shows the execution date of each of these contracts, does it not?

Mr. CROSTON. That is correct.

Mr. COBURN. And then it shows "country of origin." Now, what does that mean, Mr. Croston?

Mr. CROSTON. Frankly, not too much. In the case of the first group of the RFC where it says "Domestic—Texas City," it does not mean that the origin of the tin concentrate was domestic, but merely that the metal was produced domestically at Texas City from foreign concentrate.

Mr. COBURN. As a matter of fact, that simply means, that column then, that that is the country of origin of the tin metal itself, does it not?

Mr. CROSTON. Country of origin of the tin metal would be Texas City.

Mr. COBURN. Yes.

Now, the Texas City refinery did process a great deal of ore from Bolivia, did it not?

Mr. CROSTON. A great deal, yes, sir.

Mr. COBURN. That is where most of the ore or concentrates came from.

Mr. CROSTON. Yes, sir.

Mr. COBURN. Although some came from Malaya.

Mr. CROSTON. None from Malaya; no, sir. The British Government saw fit to put on a restrictive export tax in 1903, after we built a smelter in the United States. The smelter was unable to operate. And from 1903 to recently, when the tax was removed, the two smelters in Malaya operated under a subsidy, contrary to the statements that have frequently been made. The producer of tin in Malaya could not export his tin outside of Malaya. He had to have it treated by either one or the other of the smelters there. There was, of course, a great deal of criticism after the war about the operation of Texas City made by the Malayan smelter interests, saying that it was subsidized. But actually their own operations were subsidized.

Mr. COBURN. All right.

Now, returning to the table, the table also shows the delivery period of the tin metal bought pursuant to these purchase contracts, does it not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And the quantity of the tin metal in long tons.

Mr. CROSTON. That is correct.

Mr. COBURN. And then it says "price per pound." What do you mean by that in the table?

Mr. CROSTON. That figure is a calculated cost, by dividing the quantity and the total cost of the contract. You come up with an average price per pound for the metal that was purchased.

Mr. COBURN. In other words, that is just the average price per pound.

Mr. CROSTON. For that contract.

Mr. COBURN. During the course of the contract.

Mr. CROSTON. That is right.

Mr. COBURN. Actually many of these contracts were market price contracts, were they not, or were they?

Mr. CROSTON. Well, very close to market; yes.

Mr. COBURN. And the market price of tin is quite volatile, is it not? It moves up and down.

Mr. CROSTON. Extremely so.

Mr. COBURN. So this is just the average price that was paid for each contract during the period of deliveries.

Mr. CROSTON. That is correct.

Mr. COBURN. And then finally we have the contract cost in the column at the extreme right of this table, which simply means the total amount that was paid by the Government under each contract for the purchase of tin.

Mr. CROSTON. That is right.

Mr. COBURN. Now, all of these contracts of purchase that are listed on this table are stockpile contracts, are they not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. According to this table, I notice that there have been no purchases of tin made since 1956. Am I correct in that?

Mr. CROSTON. That is correct; yes, sir.

Mr. COBURN. And that the total contract cost of the stockpile contracts for the purchase of tin amounts to $759,681,636.

Mr. CROSTON. That is correct.

Mr. COBURN. Now, on page 2 of this table is a relatively small item which is designated "separate tin inventory acquired from the Federal Facilities Corporation."

Would you explain that, Mr. Croston?

Mr. CROSTON. That was an inventory acquired at the shutdown of the Texas City smelter after the Government ceased operating it. The Federal Facilities Corporation, which was an outgrowth of the Office of Metals Reserve in the RFC, became a subsidiary of the GSA, and we acquired the inventory of the tin. Inasmuch as its disposal came under a different law from either the National Stockpile or the Defense Production Act, the GSA, upon request from various interests last year, disposed of this inventory of 3,933 tons.

Mr. COBURN. I understand you to say that when the smelter of Texas City was closed down, as far as the Government was concerned, there was a small inventory of tin that was on hand.

Mr. CROSTON. That is right.

Mr. COBURN. And the GSA just, so to speak, inherited that small inventory.

Mr. CROSTON. Yes, sir.

Mr. COBURN. Which is represented in this item on page 2 of the table.

Mr. CROSTON. That is correct.

Mr. COBURN. And as you have said, that item has now been disposed of by GSA.

Mr. CROSTON. Yes, sir.

Mr. COBURN. And it is no longer in the stockpile. Is that right?

Mr. CROSTON. It never was in the stockpile. It was in a Government inventory.

Mr. COBURN. It is no longer in Government inventory, then, is that correct?

Mr. CROSTON. Yes, sir.

Mr. COBURN. All right.

Now, then, if you will turn to page 3 of the table, as I understand it this is a list of the barter contracts that we have made, by which we have bartered agricultural products for tin metal.

Mr. CROSTON. Yes, sir.

Mr. COBURN. And this simply shows the contractors with whom we did business in that connection, does it not, from the left-hand column?

Mr. CROSTON. Yes, sir; those are the contractors.

Mr. COBURN. And then moving to the right, the number of contracts and the date of commitment, and the country of origin. By that you mean the country of origin of the tin metal?

Mr. CROSTON. Yes, sir; the United Kingdom as country of origin for the metal, the concentrates came from Bolivia.

Mr. COBURN. In all instances here?

Mr. CROSTON. No, where it says United Kingdom—where it says Thailand, the concentrates came from Thailand, but they were processed by Wah Chang, of Texas City.

Mr. COBURN. What about the Republic of Congo?

Mr. CROSTON. That is metal produced from the Geomines Co., and was pig tin.

Mr. COBURN. In the Congo?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And the date of delivery is shown, and the quantity is then of tin metal in the barter contracts?

Mr. CROSTON. Yes, sir.

Mr. COBURN. The unit price per pound. What do you mean by that?

Mr. CROSTON. That, again, was a calculated price of the total contract divided by the quantity.

Mr. COBURN. Just simply an average price arrived at by taking the contract price and dividing it by the tons of tin metal that were acquired.

Mr. CROSTON. Yes, sir.

Mr. COBURN. And then finally, in the right-hand column, the contract price, meaning the total amount paid under each contract, is that right?

Mr. CROSTON. That was the amount paid in material, barter; yes, sir.

Mr. COBURN. That is what I mean, yes. Showing that the total contract price, then, for all these barter transactions was $16,907,237, is that right?

Mr. CROSTON. That is correct; yes, sir.

Mr. COBURN. All right.

Now, Mr. Croston, do you have with you a table of the world production of tin?

Mr. CROSTON. Yes, sir.

Mr. COBURN. I beg your pardon.

Before we get into that, I think we should cover a point that I neglected to ask you about, that was raised by Senator Bush at the hearings on tin the other day.

Can you tell us whether we bought within our objectives for the stockpile at all times with reference to these tin purchases?

Mr. CROSTON. Yes, sir; I believe so.

Mr. COBURN. Do you have a table of those objectives before you? I think perhaps the members of the committee do not have this, but you can give us the information.

Mr. CROSTON. Yes, sir.

The objective was set on November 20, 1944.

Mr. COBURN. That is the first objective?

Mr. CROSTON. The first objective—210,000 tons.

Mr. COBURN. All right.

Senator BUSH. 1944?

Mr. CROSTON. Yes, sir. On December 2, 1949, it was increased to 260,000 tons.

On January 26, 1950, it was raised to 285,000 tons.

On November 30, 1950, it was raised to 350,000 tons. And at that time we had 117,000 tons in the inventory.

Thereafter, on June 28, 1951, the objective was reduced to 245,000. It was then, on September 28, 1954, 3 years later, raised to 308,000.

On March 22, 1955, we established a basic and a maximum—the maximum was 341,000 and the basic 313,000. At that time we had 297,000 tons of pig tin in the inventory.

There were no other changes in the objective until June 30, 1958, at which time it was reduced to 192,000 for the basic, and 198,000 for the maximum. At that time we had in the inventory 345,000 tons of pig tin.

Subsequently, on July 7, 1960, the objective was reduced to 150,000 basic, and 185,000 tons maximum. And, of course, by that time, with

the contracts that came in, plus some material that was acquired under barter and material from the Federal Facilities Corporation inventory—it brought us to a total of 352,000 tons.

Since that time we have sold off the Federal Facilities Corporation tin and the inventory stood at the end of the year at 349,000 long tons of tin.

Mr. COBURN. Well, Mr. Croston, as I understand it—and by the way, that maximum objective of 185,000 tons that you say was established in the middle of 1960—I believe July of 1960——

Mr. CROSTON. Yes, sir.

Mr. COBURN. Is the current maximum objective, is it not?

Mr. CROSTON. Yes, sir; that is correct.

Mr. COBURN. It still remains as the maximum objective.

Now, as you read those figures to me, it seems to me that we did not pass our maximum objective, so far as our inventory was concerned, until July 30, 1958, is that correct?

Mr. CROSTON. That is correct, sir.

Mr. COBURN. That was the first time that we had more tin in the stockpile than was our maximum objective.

Mr. CROSTON. No, sir. We did not have more tin in the stockpile than our objective. We had more tin in the total inventories because we had acquired some 4,000 tons from the smelter, and there was also a small inventory of barter tin.

Mr. COBURN. Well, yes. I appreciate that. But if you want to consider just the stockpile tin, now, alone—we, at that time, on June 30, 1958, had more tin in the stockpile than the maximum objective which was set at that time.

Mr. CROSTON. The maximum as of that period; yes.

Mr. COBURN. That is what I mean.

Mr. CROSTON. But not the maximum of the earlier period.

Mr. COBURN. No, I am not talking about that, Mr. Croston. I am just asking you about as of that time. Is that correct?

Mr. CROSTON. That is right.

Mr. COBURN. All right. That excess or surplus in tin, created on June 30, 1958, was due to the fact that we reduced our war concept from 5 years to 3 years at that time, is that right?

Mr. CROSTON. That is correct.

Mr. COBURN. And that created the surplus in tin.

Mr. CROSTON. That is correct.

Mr. COBURN. In the stockpile.

Mr. CROSTON. Yes, sir.

Mr. COBURN. All right.

Now, Mr. Croston, have you prepared at my request a table that shows the world production of tin from 1945 to 1961 inclusive?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Mr. Chairman, I offer for the record this table.

Senator THURMOND. Without objection, it will be admitted.

(The table referred to follows:)

World's production of tin (not including U.S.S.R.)

[Expressed in terms of metal obtainable from ore. According to the latest estimates by the International Tin Research and Development Council through 1947, thereafter by the International Tin Study Group, in tons of 2,240 pounds.]

	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Malaya	3,152	8,432	27,026	44,815	54,910	57,537	57,167	56,838	56,254	60,691	61,244	62,295	59,293	38,457	37,525	51,979	56,028
Bolivia [1]	42,483	37,619	33,259	37,336	33,754	31,213	33,132	31,959	34,825	28,803	27,921	26,842	27,796	17,731	22,329	19,407	20,664
Indonesia	1,050	6,419	15,915	30,562	28,965	32,102	30,986	35,003	33,822	35,862	33,368	30,053	27,723	23,201	21,616	22,596	18,574
Thailand	1,775	1,056	1,401	4,240	[2] 7,635	10,364	9,502	9,479	10,126	9,775	11,023	12,481	13,531	7,750	9,362	12,081	13,271
Nigeria	11,230	10,338	9,139	9,234	8,823	8,258	8,539	8,315	8,213	7,927	8,158	9,167	9,612	6,230	5,522	7,675	7,779
Belgian Congo	17,077	14,091	14,897	14,073	13,539	13,464	13,669	13,795	15,292	12,799	15,028	14,764	14,281	11,163	10,500	8,900	6,570
China	3,500	1,320	[2] 4,000	[2] 4,800	4,200	4,000	4,800	5,400	6,300	7,500	8,400	8,400	9,600	18,000	[2] 18,000	[2] 24,000	[2] 24,000
Burma	[3]	[3]	1,792	1,147	[2] 1,906	1,520	1,624	1,103	[2] 960	960	1,114	930	860	1,200	[2] 1,200	1,450	1,450
Australia	2,279	2,233	2,451	1,876	1,920	1,854	1,559	1,611	1,553	2,183	2,017	2,078	1,952	2,242	[2] 2,035	2,202	[2] 2,381
United Kingdom	1,152	793	898	1,281	1,217	890	841	903	1,103	940	1,034	1,044	1,028	1,087	1,252	1,199	1,210
Others	6,400	6,300	6,300	3,150	4,250	5,700	5,700	6,100	6,800	7,100	7,693	7,621	7,824	7,100	[2] 8,659	9,231	9,793
Total	88,500	87,000	114,000	153,500	161,100	166,000	167,500	170,500	176,000	174,500	177,000	176,000	173,500	134,000	[2] 138,000	160,720	161,720

[1] Exports; production figures not available.
[2] Estimated.
[3] Included with others (excluding U.S.S.R.).

Source: Metal Statistics, 1950, 1955, and 1960 published by American Metal Market.

Mr. COBURN. Now, may I ask you first, does this table include any production figures for the Soviet Union?

Mr. CROSTON. No, sir; it does not.

Mr. COBURN. Although the Soviet Union is known to be a substantial producer of tin, is it not?

Mr. CROSTON. In recent years, that is so; yes, sir.

Mr. COBURN. But the figures are not entirely available, so that we are not too sure just how much they are producing; is that correct?

Mr. CROSTON. That is correct. The figures that are issued from various sources appear to be completely unreliable.

Mr. COBURN. I do notice, however, that this table does include the production figures for China, does it not?

Mr. CROSTON. Yes, curiously so.

Mr. COBURN. The production figures for China in recent years are an estimate, are they not, on this table?

Mr. CROSTON. Yes, sir. There are no statistics that can be verified since about 1948.

Mr. COBURN. Although Red China is known to be a substantial producer of tin.

Mr. CROSTON. Before the war, it was a very substantial producer. During the war it fell off. And in the early 1950's, I believe the production was almost zero, very, very low.

Mr. COBURN. But the other figures on this table, other than that—those pertaining to China since World War II, are regarded as reliable figures, are they not, Mr. Croston?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And this table is broken down for each year, according to the countries with reference to production; is that right?

Mr. CROSTON. That is correct, sir.

Mr. COBURN. Now, is this expressed in terms of ore or concentrates, or in terms of metal?

Mr. CROSTON. No; this is in terms of recoverable metal, long tons of recoverable metal.

Mr. COBURN. Now, that does not mean, of course, that they have a refinery, let us say, in Nigeria, does it?

Mr. CROSTON. That is a poor example to take, because they now have two small smelters there, this last year. But in general there is no relation between the country smelting the tin and the production. This is the recoverable tin in the concentrate mined in these countries.

Mr. COBURN. The recoverable tin and the concentrates mined in each country?

Mr. CROSTON. In these countries. It may have been smelted elsewhere. But this is the amount of tin that was produced in concentrate in these countries.

Mr. COBURN. It does not represent the tin metal now, this table?

Mr. CROSTON. It represents the metal content; yes, sir.

Mr. COBURN. The metal content, yes; I know. But not metal in pigs, or anything of the sort. It is simply the metal content in the ore, produced in each of these countries?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Now, Mr. Croston, have you prepared, at my request, a table of world consumption of tin?

Mr. CROSTON. Yes, sir.

Mr. COBURN. That is a table, is it not, that starts with 1900 and goes down to 1961 inclusive, so far as the world consumption of primary tin is concerned. And it also shows at the bottom of the table the U.S. consumption from 1949 to 1961, inclusive, does it not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Mr. Chairman, I offer this table for the record.

Senator THURMOND. Without objection, it will be admitted.

(The table referred to follows:)

World consumption of primary tin, 1900–61 [1]

Year:	Long tons	Year—Continued	Long tons
1900	82,000	1931	141,000
1901	87,000	1932	105,000
1902	100,000	1933	133,000
1903	101,000	1934	123,000
1904	103,000	1935	146,000
1905	105,000	1936	156,000
1906	108,000	1937	189,000
1907	103,000	1938	150,000
1908	100,000	1939	154,000
1909	107,000	1940	151,000
1910	117,000	1941	173,000
1911	118,000	1942	113,000
1912	126,000	1943	90,500
1913	127,000	1944	100,500
1914	109,000	1945	96,500
1915	126,000	1946	112,000
1916	117,000	1947	123,500
1917	127,000	1948	129,000
1918	119,000	1949	114,000
1919	110,000	1950	152,000
1920	125,000	1951	140,000
1921	80,000	1952	132,000
1922	130,000	1953	134,000
1923	134,000	1954	143,000
1924	134,000	1955	154,000
1925	150,000	1956	160,000
1926	146,000	1957	155,000
1927	150,000	1958	150,000
1928	169,000	1959	165,000
1929	184,000	1960 (estimate)	182,300
1930	163,000	1961 (estimate)	179,800

[1] As from 1940 U.S.S.R. excluded.

Source: International Tin Council, 1960 Statistical Yearbook.

U.S. consumption of tin, 1949–61

Year:	Long tons	Year—Continued	Long tons
1949	47,163	1956	60,470
1950	71,191	1957	54,429
1951	56,884	1958	47,998
1952	45,323	1959	45,833
1953	53,959	1960	51,530
1954	54,427	1961	49,699
1955	59,828		

Mr. COBURN. Now, Mr. Croston, first, with reference to the United States, I notice that from 1949 to 1961 consumption of tin has ranged from 45,000 as a low to as high as 71,000 in 1950, is that correct?

Mr. CROSTON. That is correct, sir.

Mr. COBURN. Of course, 1950 was an unusual year, was it not? That was when the Korean conflict broke out and we were rearming very rapidly?

Mr. CROSTON. That is correct.

Mr. COBURN. So you would not regard that as a normal year, would you?

Mr. CROSTON. No, sir.

Mr. COBURN. In this country's economy.

But it would appear that in the normal years, we have usually consumed about 50,000 tons of tin in this country, have we not, each year?

Mr. CROSTON. Since the war, yes, sir. Prior to the war, when they hot dipped the tinplate, the consumption was higher.

Mr. COBURN. Now, is the consumption of tin in the United States a large factor in world consumption?

Mr. CROSTON. Yes, sir; it is quite a large factor in world consumption—not as important as it was prewar. But we are still the largest consumer of tin in the world.

At one time, of course, our consumption was a major part of world consumption. Today it is materially less. But we consume now roughly a third of the world's tin.

Mr. COBURN. Do I understand—excuse me.

Mr. CROSTON. It is far greater than that of any other nation.

Mr. COBURN. Do I understand you to say, then, that the percentage of consumption of the United States relative to the world, though large, is not as large as it used to be?

Mr. CROSTON. That is correct. It has been declining.

Mr. COBURN. About how long has that decline been going on? Has it been recent?

Mr. CROSTON. Yes, sir. It has been mostly since the resurgence of industry in Europe, and the greater use of tin for canning purposes in Europe, and the rapid growth of the automobile industry in Europe, using a large amount of tin. More recently the popularity of canned beer in Europe is growing by leaps and bounds—although it is still a long way behind American consumption.

The European steel industry has been modernized, and has modern tinplate mills. The tin consumption in Italy, Germany, France, and Japan has increased tremendously.

Mr. COBURN. What countries in Europe have shown a notable increase in consumption of tin in recent years?

Mr. CROSTON. West Germany, France—France is developing quite a large tinplate industry. Italy has grown a great deal. Japan, of course, has had a tremendous growth.

Mr. COBURN. This table then has been introduced in the record now, showing the world consumption of primary tin—by the way, it represents tin metal, does it not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And the same is true of the American consumption figures—tin metal?

Mr. CROSTON. It is in tin metal. But this is primary metal—that is metal produced from concentrates. We do have a large consumption of tin in the United States from secondary metals, scrap.

Mr. COBURN. Scrap?

Mr. CROSTON. Yes, sir.

Mr. COBURN. But this table does not include that?

Mr. CROSTON. This does not include that, no.

Mr. COBURN. I notice that it is indicated on the table that the world consumption figures do not include the figures from Soviet Russia; is that right?

Mr. CROSTON. That is correct; yes, sir.

Mr. COBURN. It is known, is it not, that Soviet Russia is at least a substantial consumer of tin?

Mr. CROSTON. Yes, sir.

Mr. COBURN. But the exact figures are not available?

Mr. CROSTON. No, they are not available. We had some reasonably good guesstimates of it. It would appear that their consumption is about in balance with their production at this time.

Mr. COBURN. But at any rate, their consumption figures are not included in this table?

Mr. CROSTON. No, sir.

Mr. COBURN. Now, Mr. Croston, did you prepare at my request a pie diagram, I guess you could call it, which illustrates in another way the world consumption of tin metal during the period of 1947 to 1949, inclusive, and also during the period of 1957 to 1959, inclusive, divided according to the countries of the world?

Mr. CROSTON. Yes, sir.

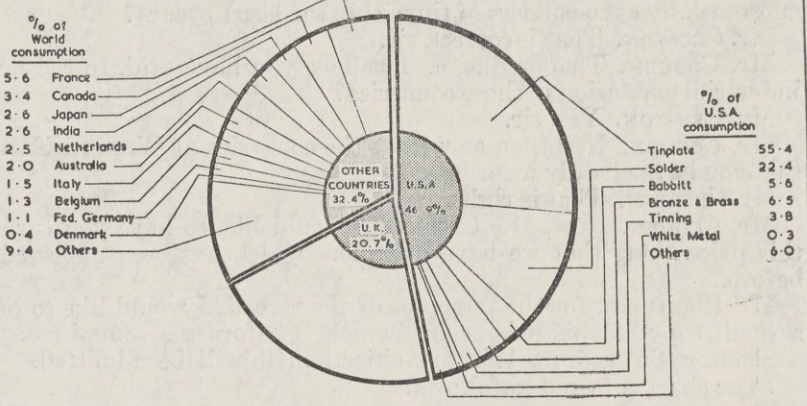
Mr. COBURN. Mr. Chairman, I offer this diagram for the record.

Senator THURMOND. Without objection, it will be admitted.

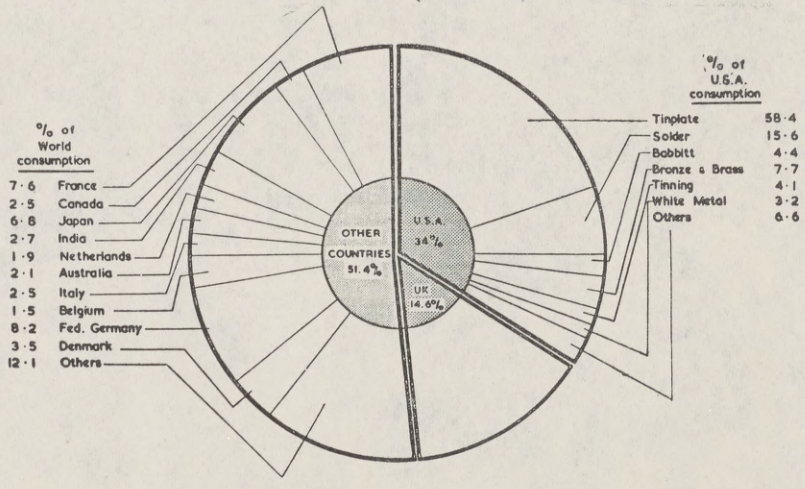
(The diagram referred to follows:)

WORLD CONSUMPTION OF TIN METAL 1)

1947-49 average (118,233 tons)



1957-59 average (144,933 tons)



1) Excluding USSR, China & E.Europe.

Mr. COBURN. Now, this table shows, does it not, Mr. Croston—which you have already testified to—that the United States is a large consumer of tin at the present time, as it was back in 1947 to 1949, correct?

Mr. CROSTON. That is correct.

Mr. COBURN. But that we are not as large a consumer relative to the rest of the world now as we were at the earlier period of 1947 to 1949?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And this table confirms what you have said, that such countries as France and Germany and Japan have all increased substantially as consumers of tin within the last 10 years?

Mr. CROSTON. That is correct, sir.

Mr. COBURN. That is due, as I believe you have said, to the large industrial expansion in those countries?

Mr. CROSTON. Yes, sir.

Mr. COBURN. In Japan as well as the countries of Western Europe that you have already mentioned?

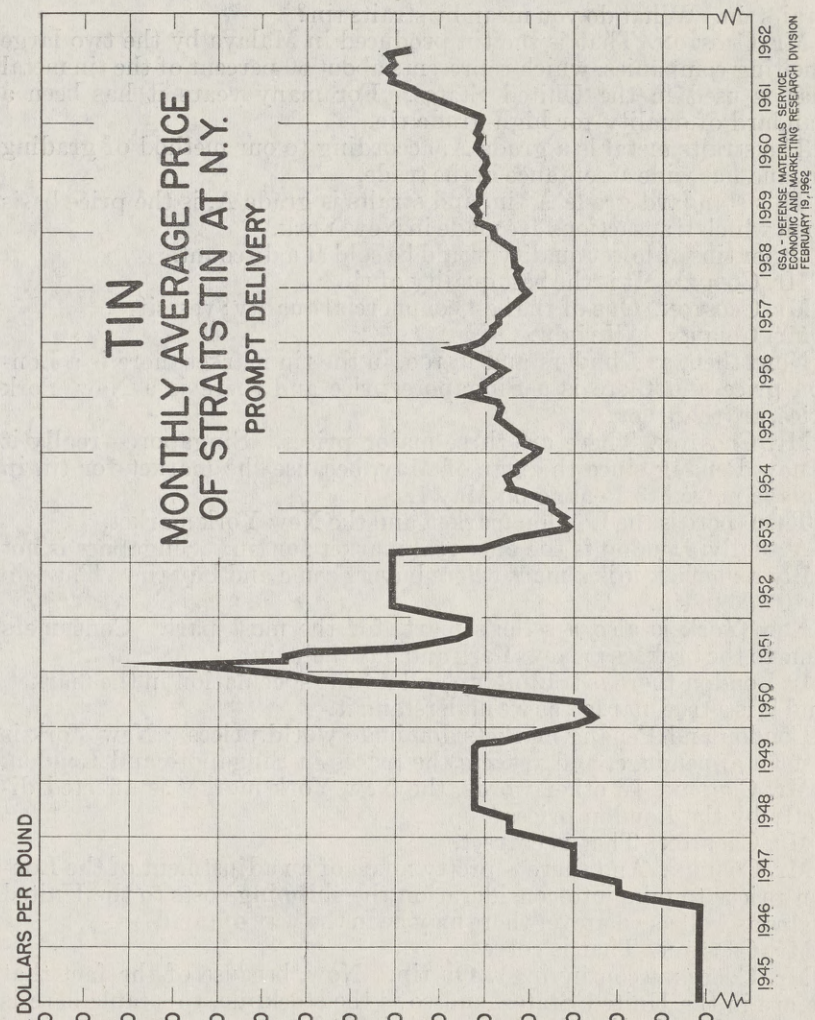
Mr. CROSTON. That is right.

Mr. COBURN. Now, Mr. Croston, I would like to have you turn to this price chart that we have over here which has been adverted to before.

Mr. Chairman, for the purposes of the record, I would like to offer a small copy of this price chart which is before the committee.

Senator THURMOND. Without objection, it will be admitted.

(The chart referred to follows:)


TIN
MONTHLY AVERAGE PRICE
OF STRAITS TIN AT N.Y.
PROMPT DELIVERY
U.S. DOLLARS PER POUND
2.00
1.90
1.80
1.70
1.60
1.50
1.40
1.30
1.20
1.10
1.00
0.90
0.80
0.70
0.60
0.50
1945 1946 1947 1948 1949 1950 1951 1952 1953 1954 1955 1956 1957 1958 1959 1960 1961 1962
GSA - DEFENSE MATERIALS SERVICE
ECONOMIC AND MARKETING RESEARCH DIVISION
FEBRUARY 19, 1962

Mr. COBURN. Mr. Croston, I think it would be helpful to the committee if you interpret these price movements in tin through the years.

I start here at the left-hand side of this chart, for the years 1945 and 1946, which shows that the price of tin at that time was about 55 cents.

Before we start interpreting this, I see that the chart refers to straits tin. What do you mean by straits tin?

Mr. CROSTON. That is the tin produced in Malaya by the two large smelting companies, which represents about 60 percent of the tin metal that is used in the United States. For many years it has been a standard of quality for high-grade tin.

The straits metal is a grade A, according to our method of grading tin, and has wide acceptance in the trade.

This standard grade A tin, and straits is grade A, is the price basis upon which transactions are made in New York.

Other tins of lower quality would be sold at a discount.

Mr. COBURN. It is the best quality of tin?

Mr. CROSTON. One of the best commercial quality; yes, sir.

Mr. COBURN. All right.

Now, then, as I understand it, too, in the tin market there is a London price and there is a Singapore price and there is a New York price, are there not?

Mr. CROSTON. There are three major prices. Singapore—really it is now Penang since the first of May, because the market for tin in Malaya moved to Penang on May 1.

Then there is the London market, and the New York market.

Actually, London is the only real market for tin. Singapore is not really a market, it is a mart where buyers come and buy tin. They do not trade in tin.

New York is also a seller's mart, for the most part. Consumers come to the brokers in New York and buy their tin.

In London there is trading up and down; speculation in the market. And it is a true market, as we understand it.

London and Penang markets dominate world prices. New York is just an appendage, and reflects the prices in Singapore and London.

Mr. COBURN. In other words, the New York market is affected directly by the London prices?

Mr. CROSTON. That is correct.

Mr. COBURN. And there is pretty much of an adjustment of the London prices to take into consideration the shipping costs to the United States as well as whatever there may be in the way of tariff——

Mr. CROSTON. That is correct.

Mr. COBURN (continuing). On tin. Now, because of the fact that we are in the United States, and so is the stockpile, this table here is predicated on the New York prices, is it not?

Mr. CROSTON. That is right.

Mr. COBURN. All right. Now, if we will return here to the left-hand side of this chart, I would like to have you interpret these prices.

Here is the price for 1945 and 1946 at about 55 cents a pound.

Mr. CROSTON. That was——

Mr. COBURN. Now, why was that price maintained at a perfect level across those 2 years?

Mr. CROSTON. That was the price at 52 cents a pound.

Mr. COBURN. Oh, 52.

Mr. CROSTON. That was established on August 16, 1941, by the Office of Price Administration, which was maintained from then on through the war and into 1946.

Mr. COBURN. And so this level line there for most of 1945 and 1946 was simply at a time when the price of tin was controlled by the Government in the United States. Is that right?

Mr. CROSTON. That is right.

Mr. COBURN. And then, when the line jumps sharply toward the end of 1946 on this chart, was that when price controls were removed?

Mr. CROSTON. Yes; the ceiling was removed in November of 1946 and the price advanced to 70 cents a pound.

Mr. COBURN. And the price moves on up to a high level here on $1.12 about or something like that?

Mr. CROSTON. Well, the first raise——

Mr. COBURN. In 1948?

Mr. CROSTON. The first raise was on April 1, 1947, to 80 cents; then to 94 cents on December 19.

Mr. COBURN. Well, I don't care about all of those statistics.

I just want you to look at the chart here and interpret these changes in the price, if you will. Tell us why they were done.

Mr. CROSTON. Well, all those prices were under Government controls. Prices were set by the Reconstruction Finance Administration.

There were no prices in——

Mr. COBURN. Until when?

Mr. CROSTON. In 1949 controls were released, in November 1949.

Mr. COBURN. So, as I understand it then, these increases in the prices shown on this chart, up to a level point in 1948 were due to the increases in the price control, that is in the controlled price of tin in the United States?

Mr. CROSTON. That is correct.

Mr. COBURN. Is that right?

Mr. CROSTON. That is correct.

Mr. COBURN. And the price seems to have leveled off then for a period of a little over a year in 1948 and 1949.

Was that simply another period of controlled prices——

Mr. CROSTON. Yes, sir.

Mr. COBURN (continuing). Without any increases being granted? Is that correct?

Mr. CROSTON. That is correct.

Mr. COBURN. All right. Now, there is a sharp dip in the price in the latter part of 1959. What caused that, Mr. Croston?

Mr. CROSTON. Well, prices were lowered by the Government and also private trading came in, and prices dropped to 74½ cents in January of 1950.

Mr. COBURN. When was the control of the tin prices taken off?

Mr. CROSTON. It was about November of 1949; somewhere around there.

Mr. COBURN. So apparently we not only decreased the price of tin about this time, while it was still controlled, but after the controls were taken off the price continued to drop——

Mr. CROSTON. Yes, sir.

Mr. COBURN (continuing). In the open market?

Mr. CROSTON. That is correct.

Mr. COBURN. Now, we reach a low point here in the early part of 1950 on the chart; do we not?

Mr. CROSTON. That is right.

Mr. COBURN. At which time the price was—what was that? About 78 cents a pound?

Mr. CROSTON. The low point was 74½ cents.

Mr. COBURN. The low point was 74½ cents.

And then immediately following that, in the latter part of 1950 and the early part of 1951, we have an amazing increase in price, do we not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Now, what caused that?

Mr. CROSTON. That was due to the outbreak of the Korean conflict and, frankly, it was due to heavy purchases by our Government, heavy purchases by consumers, in anticipation of wartime shortages, purchases by the Swiss Government, by the Canadian Government, and by the Italian Government, simultaneously, and was aided and abetted, in a large part, by speculators who saw an opportunity to go to town and make a fast profit, which they did.

Mr. COBURN. And so the price advanced on the New York market to where?

Mr. CROSTON. The New York market went to $1.84.

Mr. COBURN. And the price in London at one time, for a very short period of time, reached $2, did it not, the London market?

Mr. CROSTON. $2.01.

Mr. COBURN. $2.01. Now this price rise that occurred in the latter part of 1950 and early 1951 reaches its high peak, and then drops off very sharply in the latter part of 1951. What caused that?

Mr. CROSTON. Well, there was a suspension of buying. The Senate Armed Forces report came out in March of——

Mr. COBURN. March of what?

Mr. CROSTON. March of 1951. The GSA suspended its purchases also, and the price dropped.

Somewhere about, I think, about May the RFC established a price of $1.34 a pound and by August 1 it had dropped to $1.03, the low point.

Mr. COBURN. Well, now we have heard testimony here previously that the RFC stopped purchasing tin.

By that you mean that purchases for the stockpile were stopped?

Mr. CROSTON. That is right.

Mr. COBURN. That was during this time? And they finally eventuated a price of $1.12 that was recommended by the mission to Bolivia to purchase a lot of tin that was then on the docks in Chile that came out of Bolivia; is that correct?

Mr. CROSTON. That is correct.

Mr. COBURN. And that influenced this reduction in price, I suppose, to something in that neighborhood, did it not? That was one of the influences?

Mr. CROSTON. Right.

Mr. COBURN. And so the price finally dropped down, during the latter part of 1951, to a point below $1.10 a pound, did you say?

Mr. CROSTON. $1.03.

Mr. COBURN. $1.03. All right.

Now right at the end of 1951 the price again advanced rather markedly to a little over $1.20 a pound. Do you know what caused that?

Mr. CROSTON. Well, the RFC made purchase contracts for $1.21½ in January.

Mr. COBURN. Of 1951?

Mr. CROSTON. 1952.

Mr. COBURN. 1952, I mean.

Mr. CROSTON. Yes.

Mr. COBURN. That was a large contract, was it?

Mr. CROSTON. Yes.

Mr. COBURN. And that influenced the price?

Mr. CROSTON. We also made a deal between the United States and the United Kingdom to acquire 20,000 long tons of tin, and we paid them in steel and aluminum—no, we bought aluminum and tin from them and repaid them in steel.

Mr. COBURN. In steel?

Mr. CROSTON. Yes.

Mr. COBURN. And we paid them for that lot of tin about $1.21, did we not?

Mr. CROSTON. It worked out to about that. I think we paid them, if my memory serves me, $1.18 and with freight and other charges, it came to about $1.21 or so.

Mr. COBURN. And so this line here, during 1952, at $1.21 was established, I assume, by that deal that we made with England?

Mr. CROSTON. That is right, that and contracts with other countries.

Mr. COBURN. All right. Now, then, in 1953 there is another sharp break in the price of tin from that level of $1.21 a pound down to about 80 cents, is there not?

Mr. CROSTON. That is correct.

Mr. COBURN. And what caused that, Mr. Croston?

Mr. CROSTON. First off, it was rumors of a Korean armistice, and then our Government announced that they had completed their stockpiling requirements.

Mr. COBURN. So that this drop in price was due to the cessation of hostilities in Korea and the fact that we substantially stopped our stockpile purchases.

Is that right?

Mr. CROSTON. That is correct.

Mr. COBURN. Any stockpile purchases after that were of a minor character as far as quantity was concerned?

Mr. CROSTON. The low point was 78¼ cents.

Mr. COBURN. I say, any stockpile purchases after that were of a low amount as far as quantity was concerned?

Mr. CROSTON. That is right.

Mr. COBURN. Now since 1953 the price has vacillated to a considerable extent with peaks and valleys, but until we get over to the end of 1960 the prices remained rather constant, did they not, between 80 cents and a dollar a pound?

Mr. CROSTON. The earlier part is a more or less normal fluctuation for it. Then the flat part is where buffer stock action took place in 1959 and 1960, and early in 1961 the buffer stock was exhausted.

Then there was a rise in price because there was no further brake on the market to restrain prices.

Mr. COBURN. All right. Now I think we will have to mention the buffer stock at this time so that we can explain some price movements here. What do you mean by the "buffer stock," Mr. Croston?

Mr. CROSTON. The International Tin Council had a buffer stock which was used to stabilize the price of tin.

If the price of tin dropped below a certain point they purchased it. If it went above a certain point they sold tin. They had twenty-odd-thousand tons of tin in the buffer stock at one time——

Mr. COBURN. You are talking about tin metal now, are you?

Mr. CROSTON. Tin metal; and in an effort to hold the market to a reasonable figure they sold that tin during 1959 and 1960 and early 1961.

The buffer stock became exhausted about that time, and then there was no means of holding the market in check. It went up rapidly from then on.

Mr. COBURN. Now just a moment, before we get to the time when the buffer stock was exhausted: The chart here shows that there is a quite level plateau that is reached here in the price that ran through 1959 and 1960, when the price was very close, day in and day out to $1 a pound. Is that not correct?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Was that the period of time when the Tin Council was selling tin from the buffer stock?

Mr. CROSTON. That is correct.

Mr. COBURN. All right. Now at the first of 1961 there is a sharp rise in the price from $1 a pound to about $1.20 a pound.

Can you tell us what caused that?

Mr. CROSTON. There was no buffer stock to restrain price movements, and there was an anticipated shortage of tin. Consumption had been growing at a fast rate. It had overtaken production and, statistically, it appeared that there would be a serious shortage of tin in the future.

Therefore the price moved up through purchasing by consumers, in anticipation of their wants, aided and abetted by the ever-present speculators.

Mr. COBURN. Do I understand you to say that there came a time here when the world consumption of tin exceeded the production?

Mr. CROSTON. That is correct.

Mr. COBURN. That began about 1959, did it not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And is still prevailing, as a matter of fact, is it not?

Mr. CROSTON. There is a statistical shortage of tin, not an actual shortage at the moment, but consumption has exceeded production for several years and has been taken care of by a drawdown in stocks.

But that, of course, cannot continue indefinitely.

Mr. COBURN. That is a drawdown in private inventories of tin metal?

Mr. CROSTON. That is correct, sir.

Mr. COBURN. I see, and that situation is still prevailing, is it not?

Mr. CROSTON. That is correct.

Mr. COBURN. All right. Now, that is one of the causes for this sharp jump in the price from a dollar to $1.20 a pound in 1961?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And then the other cause for that jump, I believe you have said, was that during 1961 the quantity of tin in the buffer stock being sold by the Tin Council to meet this strong demand in the market, was exhausted?

Mr. CROSTON. Yes.

Mr. COBURN. So there is no tin in the buffer stock at the present time?

Mr. CROSTON. Well, there is now—that statement would be correct up until several weeks ago.

Mr. COBURN. Well, there was virtually none?

Mr. CROSTON. Virtually none, yes.

Mr. COBURN. The present tin stock has been or is virtually exhausted at the present time?

Mr. CROSTON. Yes.

Mr. COBURN. Now, Mr. Croston, I notice that in 1962 there is a little reduction, some noticeable reduction, in the price of tin, is there not?

Mr. CROSTON. That is correct.

Mr. COBURN. The price of tin, at the first of 1962, January 1, 1962, seems to have been about $1.20 a pound.

Mr. CROSTON. That is correct.

Mr. COBURN. And I believe you have just said that the most recent quotation you have had, perhaps as of yesterday, was $1.08 a pound. Is that right?

Mr. CROSTON. About $1.08, $1.09, yes, sir.

Mr. COBURN. Can you tell us what you think caused that reduction in price?

Mr. CROSTON. Well, I think it is possibly a reduction in consumer purchases, awaiting the outcome of the Government's decision to dispose.

Again, speculators took additional advantage of it on the downswing to push the price down, so that the entire world now, the tin world, is awaiting word of when the U.S. Government will sell tin and in what quantities and what intervals.

Mr. COBURN. All right. And now, let's clarify that.

As I understand it, there is a disposal plan of 50,000 tons of tin that was made public by the GSA, and which has been approved by the Congress.

Is that right?

Mr. CROSTON. That is correct, sir.

Mr. COBURN. The actual disposals have not started yet, have they?

Mr. CROSTON. No, sir.

Mr. COBURN. Though they will shortly?

Mr. CROSTON. That is right.

Mr. COBURN. When was that disposal plan announced by GSA first?

Mr. CROSTON. It went up to——

Mr. COBURN. Now, wait, I am not asking you about the price. Get my question?

Mr. CROSTON. Yes, sir.

Mr. COBURN. I asked you when was that disposal plan announced by GSA?

Mr. CROSTON. It went to the Congress for hearings on June 4.

Mr. COBURN. Yes, but when was it announced? It is on that table of yours.

Mr. CROSTON. It was in September when it got into the Federal Register.

Mr. COBURN. Yes, when it was first announced publicly and officially it was in September of 1961, was it not?

Mr. CROSTON. That is right. Yes, sir.

Mr. COBURN. This is the 50,000-ton disposal?

Mr. CROSTON. 50,000 tons.

Mr. COBURN. All right. Did the market react to that announcement?

Mr. CROSTON. It did. It went down a little bit.

Mr. COBURN. Was there any reduction in the market at that time?

I had understood not, but I may be wrong. I want you to be sure now of your facts, Mr. Croston.

Mr. CROSTON. There is a little reduction in each; very little.

Mr. COBURN. You say there was a small reduction in September of 1961 or not, now?

Mr. CROSTON. Yes, sir. The price on the date of the announcement was about $1.22½, and it dropped to about $1.20⅜.

Mr. COBURN. Did it go below that for any time, we will say, during September?

Mr. CROSTON. No, it then went up a little bit and then slowly sagged off during the rest of September——

Mr. COBURN. Well, what was the price of tin at the close of the year 1961?

Mr. CROSTON. At the close of the year the price was roughly $1.20.

Mr. COBURN. So the price drifted down, as I understand you, from the time that the plan was first announced in September of 1961, to the close of the year, from about $1.25 to about $1.20 a pound?

Mr. CROSTON. About that, yes.

Mr. COBURN. Now, the plan had not been acted on during that period of time by Congress, had it, Mr. Croston?

Mr. CROSTON. No, sir.

Mr. COBURN. I believe the Congress adjourned before the plan could be acted on during the fall of 1961?

Mr. CROSTON. That is right.

Mr. COBURN. Now, when the Congress reconvened in January of 1962 was there any movement in the price?

Mr. CROSTON. No, sir. There was none at that time.

Mr. COBURN. When does any movement occur for the first time in 1962, that is, in any way significant?

Mr. CROSTON. Our last sale of FFC tin was early in January, and from then on all through February the price remained practically stationary, and then it went up a few cents during March.

Then in April the price began to decline——

Mr. COBURN. When that decline started what was the price?

Mr. CROSTON. The price was about $1.22 or somewhere around that.

Mr. COBURN. About $1.22 a pound?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And it has now declined, as you have already testified, to about $1.08 a pound?

Mr. CROSTON. Right.

Mr. COBURN. Do you attribute that decline to anything that occurred during that period of time, Mr. Croston?

Mr. CROSTON. I think the decline can be attributed to the publicity given to the hearings in the House and the approval by the committee, the Senate hearings, and the approval by the Senate of the disposal plan.

Mr. COBURN. When was the disposal plan approved by the House?

Mr. CROSTON. It was approved on June 4.

Mr. COBURN. Are you talking about the Senate or the House, Mr. Croston?

I am talking about the House. I want the House approval date.

Mr. CROSTON. The House approval was on June 4.

Mr. COBURN. Are you sure of that?

That was the House approval, June 4, was it?

Mr. CROSTON. The hearings in this committee weren't held until the——

Mr. COBURN. All right.

Mr. CROSTON (continuing). Tenth or eleventh.

Mr. COBURN. So the House approval was June 4 and the Senate approval was what?

Mr. CROSTON. June 21.

Mr. COBURN. June 21.

Now, all of these movements of the price of tin, since June of 1961 to date are set forth in a detailed chart that you prepared for me.

Is that not correct?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And you have been testifying from that chart with reference to these price movements during that period.

Is that right, Mr. Croston?

Mr. CROSTON. Yes, sir.

Mr. COBURN. And these charts, five pages of them, reflect not only the—well, they reflected the Singapore price, the London price, and the New York price, do they not?

Mr. CROSTON. Yes, sir.

Mr. COBURN. Mr. Chairman, I offer these charts for the record.

Senator THURMOND. Without objection, they will be received.

(The charts referred to face page 1748.)

Mr. COBURN. Now, Mr. Croston, I think the committee might be interested in this plan of disposal which has been approved, talking about the 50,000 tons of tin which has been approved but has not started as yet.

I think it would be well for you to tell us, if you can, if you are able to comment on it, what general principles GSA intends to apply in the disposal of this tin.

Mr. CROSTON. I can only speak in a general way because we still have to complete some discussions with other agencies on the basis of talks that were held a week ago with the International Tin Council.

But, in brief, we plan to dispose of a certain tonnage of tin each week for a 6-month period, and test the market and effect of the disposals on the market. At that time we will then have a conference with the other agencies and the State Department will perhaps bring in some of the foreign producers or the International Tin Council to weigh the effects of our disposals on the market.

If the situation has been satisfactory then we will continue until the tin is disposed of at the same rate.

If it can be shown that there is a serious injury being done to the tin industry then steps will be taken by our Government to alleviate that situation by either a reduction in sales or by some other method, because we have no desire to disrupt the market prices of tin and cause the shutdown of some of the higher cost producers in many of these countries.

However, it is not reasonable to suppose that we should not sell tin only at a price that would be high enough to keep all marginal producers in being, because there will always be tin producers who cannot make money on any reasonable market.

We will attempt to sell tin at a price that will keep the major part of the industry in a healthy condition.

Mr. COBURN. As I understand it then, you have discussed this disposal plan with the Tin Council, have you, Mr. Croston?

Mr. CROSTON. Yes, sir. It was discussed with the Tin Council.

Mr. COBURN. Were you present during these sessions?

Mr. CROSTON. Yes, sir; I was.

Mr. COBURN. Did you talk with them and tell them what the General Services Administration proposed to do with reference to the disposal of this amount of tin?

Mr. CROSTON. The talks were chaired by Mr. Blumenthal of the State Department, who carried on most of the discussion and I was called upon to discuss the various aspects of the disposal and of the quantities of tin that were in the stockpile and other technical matters like that.

Mr. COBURN. When were those discussions held?

Mr. CROSTON. They were held about a week ago, Monday to Thursday.

Mr. COBURN. Here in Washington?

Mr. CROSTON. Here in Washington; yes, sir.

Mr. COBURN. Well, may I ask you this: At the time of those discussions was there a tentative figure mentioned as to how much you might dispose of per week?

Mr. CROSTON. Yes, sir.

Mr. COBURN. What was that?

Mr. CROSTON. In our discussions with the ITC there is a figure of 300 tons per week.

Mr. COBURN. That was mentioned?

Mr. CROSTON. Yes, sir.

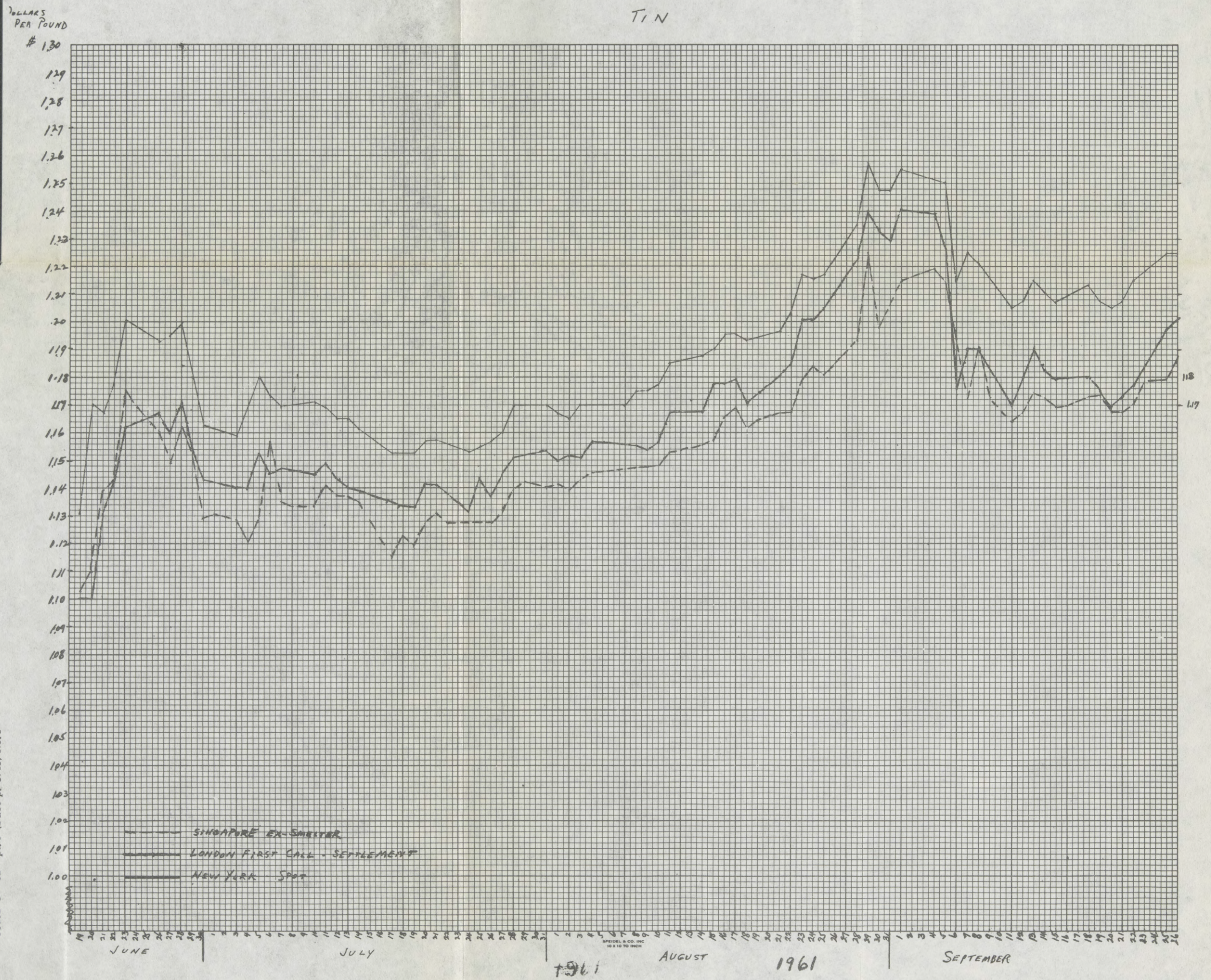
Mr. COBURN. However, as I understand your testimony, as you have just given it, that figure is a tentative figure only and a flexible figure that may be changed after you have had some experience with the reaction of the market to the disposals?

Mr. CROSTON. That is correct, sir.

Mr. COBURN. Mr. Chairman, I believe that completes my questions.

(A history of the International Tin Council was prepared by C. W. Nichols, special assistant to the Assistant Secretary for Economic

TIN



83502 O - 62 - pt. 5 (Face p. 1748) No. 1

TIN

DOLLARS PER POUND

1.30
1.29
1.28
1.27
1.26
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1.02
1.01
1.00

SINGAPORE EX. SMELTER

LONDON FIRST CALL - SETTLEMENT

NEW YORK - SPOT

SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER

1961

83502 O - 62 - pt. 5 (Face p. 1748) No. 2

TIN

DOLLARS PER POUND

1.30
1.29
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- - - - - SINGAPORE EX-SMELTER
-·-·-·- LONDON FIRST CALL - SETTLEMENT
——— NEW YORK - SPOT

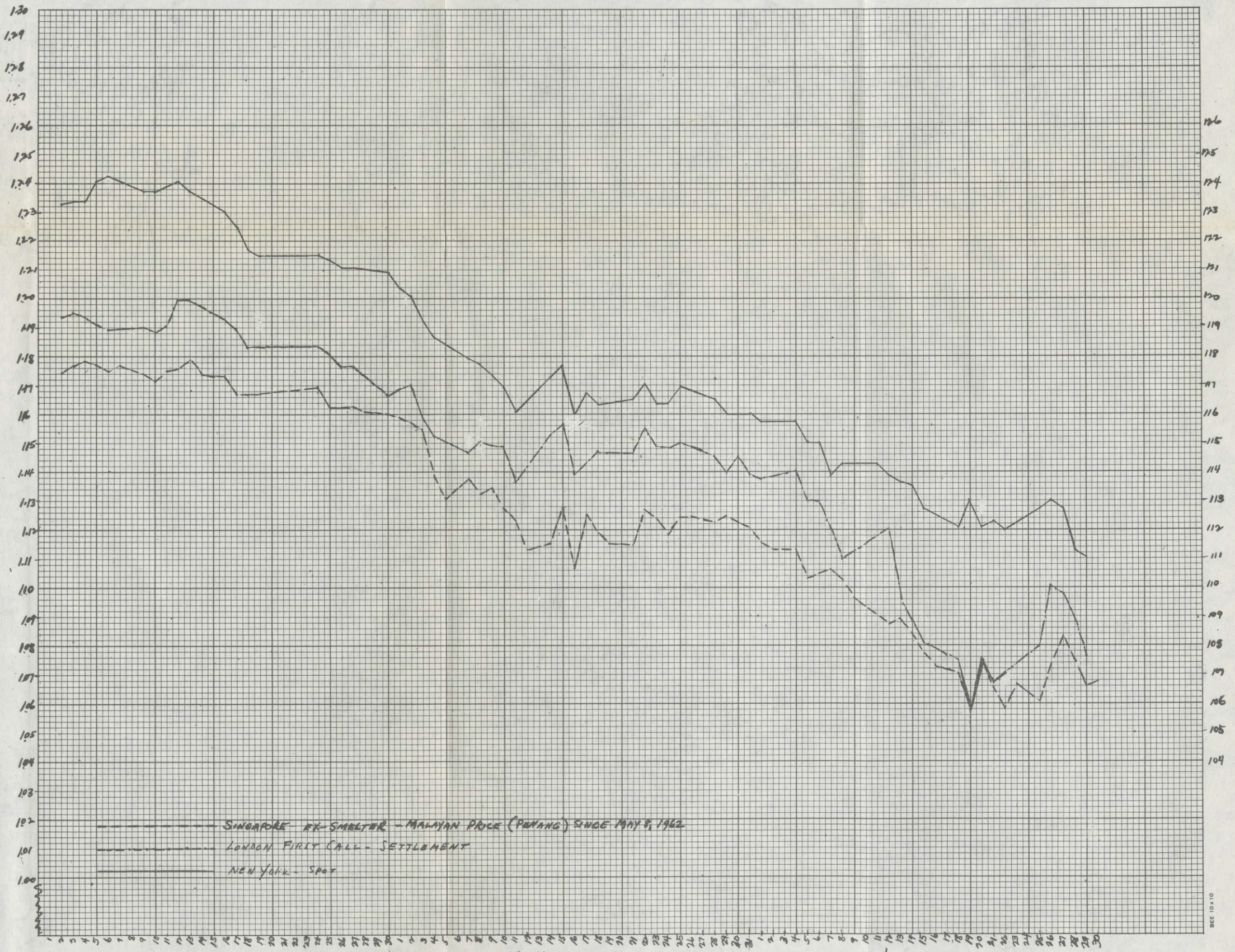
DECEMBER 1961 | JANUARY 1962 | FEBRUARY 1962 | MARCH 1962

SPEIDEL & CO INC 10 X 10 TO INCH

83502 O - 62 - pt. 5 (Face p. 1748) No. 3

TIN

U.S. DOLLARS PER POUND



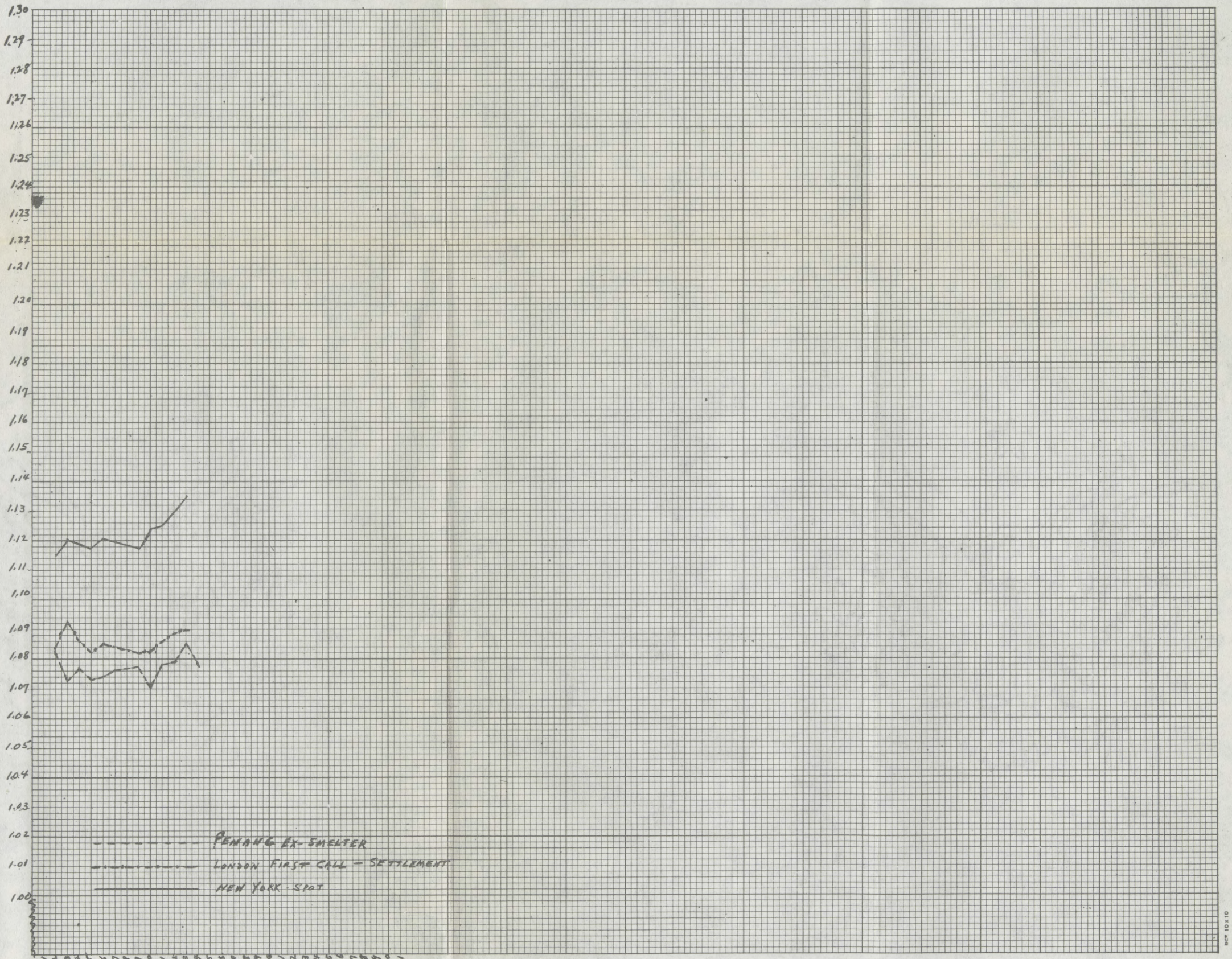
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U.S. DOLLARS PER POUND

TIN



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Affairs of the Department of State on August 6, 1962, and is inserted in the record at this point:)

INTERNATIONAL TIN COUNCIL

The International Tin Council administers the International Tin Agreement. The Council has as its members representatives of governments which are parties to the agreement.

Meetings of the Council are held quarterly or more often. The meetings usually are held at the headquarters of the Council in London, England.

Twenty-one governments are now participating in this agreement. Most of the countries which are important producers or consumers are participating except for the United States, Federal Republic of Germany, U.S.S.R., and Communist China.

The objectives of the International Tin Agreement include the prevention of excessive fluctuations in the price of tin and the insuring of adequate supplies of tin at prices which are fair to consumers and provide a reasonable return to producers. The member governments cooperate in accordance with the terms of the agreement in efforts to keep the market price of tin within the limits which are considered by the Council to be appropriate to the objectives of the agreement.

The Council was first established in 1956. The price range which was originally specified in the First International Tin Agreement as negotiated in 1953, was in terms of U.S. currency, 80 cents to $1.10 per pound. In 1957 the price range was changed to 91¼ cents to $1.10. This was further revised early in 1962 to the present range of 98¾ cents to $2.20⅝. Both of those changes were made by vote of the Council. The representatives of the consuming countries together have a number of votes in the Council which is equal to the total number of votes held by representatives of producing countries. Changes in the price range require a majority of the consumer votes and a majority of the producer votes counted separately.

The agreement establishes a buffer stock. This has been financed by capital supplied by the members which are producing countries. The manager of the buffer stock is required to purchase tin if he has cash when the market price is at or below the bottom of the agreed price range. He is required to sell, if he has tin, when the market price is at or above the top of the range. Purchases or sales within the range are permitted, but not required, under specified conditions, for the purpose of preventing the market price from rising or falling too steeply.

All of the original capital of the buffer stock was in the form of cash. Purchases of tin were made by the buffer stock in 1957 and 1958 during periods of weakness in the market. The available cash was exhausted in the latter part of 1958. The buffer stock had by that time accumulated more than 23,000 tons of tin metal. When market demand and prices improved in 1959, some metal was sold from the buffer stock. This checked the rise in the price of metal for a time. By 1961, world consumption of tin had increased further. Demand for tin was strong. All of the remaining metal in the buffer stock was sold in accordance with the agreement by June of 1961. No further operations in the market by the buffer stock occurred until late July 1962. It is understood that small purchases of tin were made on the London Metal Exchange at that time, during a period of market weakness in the lower third of the agreement range.

The Council is also authorized to establish controls over the quantity of exports of tin from countries which participate in the agreement as producing countries. The Council may determine that this is necessary when a problem of excess supply and declining prices reaches proportions that are beyond the capability of the buffer stock. Export controls were in effect from December 1957 until October 1960. The rate of permissible exports was being reduced during 1958 but began to be increased as demand improved in 1959. By 1960, the export quotas had been raised to levels which were not very restrictive. No controls have been in effect since October 1, 1960.

C. W. NICHOLS,
Special Assistant to the Assistant Secretary for Economic Affairs.

AUGUST 6, 1962.

Senator THURMOND. Senator Engle?
Senator ENGLE. No questions.
Senator THURMOND. Senator Bush?

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Senator BUSH. Mr. Croston, you were here and testified in connection with the chromite stockpile, the American Chrome Co.'s production?

Mr. CROSTON. Yes, sir.

Senator BUSH. In that connection, I wrote to Mr. Maurice J. Connell, Commissioner of Defense Materials Service.

Do you know him?

Mr. CROSTON. Yes, sir.

Senator BUSH. Are you in the same Division?

Mr. CROSTON. Yes, sir. He is my Commissioner.

Senator BUSH. He is your Commissioner?

I wrote to him and asked him, and I said, "I would like to know what value has been set on the nonspecification grade materials."

That includes this chromite that we had under discussion, the big pile of it.

And he writes back on July 31 and says to me in this letter, which is signed by Mr. Knott, Acting Administrator, "The nonstockpile grade material on hand has an estimated market value, as of December 31, of $19,704,000 for metallurgicial chromite."

Well, now, this chromite was said to have no market value at all in these hearings.

Several people testified that it could not be put in shape to sell, and that is why it has never been moved or never has been used.

Now, can you explain to me why they would carry an estimated market value of a little over half its cost value which, I think, was on the order of $34 million or $35 million, carrying it at $19,700,000?

Can you explain why they would carry an estimated market value of that figure when the testimony indicates that there is not any market at all for it?

Mr. CROSTON. I would not say that there would be no market for it. I would presume that the Comptroller Division had estimated a value for this material on the basis of—if it had been converted into material, that it might have an arbitrary value of that amount.

Of course, it includes other material besides the concentrates of——

Senator BUSH. Put your microphone in a little closer. I cannot hear you very well.

Mr. CROSTON. I have no definite knowledge of how the Comptroller Division arrived at that valuation.

It probably was an arbitrary valuation that it placed upon the concentrate at one time on the basis that if it were used to produce a ferroalloy that it would have—put a value of that amount on it if you used it in place of using a high-grade ore.

But I have no specific knowledge on how they arrived at that valuation.

Senator BUSH. Mr. Chairman, I am a little puzzled by the committee's long inquiry into this tin situation.

I mean, I would like to know just what it is they are trying to prove by this long inquiry into tin. I think I understood what we were trying to do on chromite, and I think I understand what we were trying to do on lead and zinc.

I am a little puzzled as to what is our objective in connection with this very searching inquiry in the matter of the history of the tin stockpile.

Senator THURMOND. Possibly counsel would care to answer that.

Mr. COBURN. Yes, I will be glad to.

Senator BUSH. I do not want counsel to give out any privileged information.

Mr. COBURN. No, no——

Senator BUSH. But I am very puzzled by it. I have sat patiently through two mornings of this——

Senator ENGLE. Will you yield?

Senator BUSH (continuing). And I am puzzled by it.

Senator ENGLE. Will you yield?

Senator BUSH. Yes.

Senator ENGLE. I had a telegram from the representative of the American Chrome Co. this morning, from San Francisco, in which he bitterly complained about the adjective used with reference to the value of chrome.

You may recall that I described it as a useless amount of chrome. The record has just gone upstairs because I wanted to answer him.

But I quoted to this gentleman the statement that you made where you said if you bought the chrome concentrates in Africa, brought them to the coast, shipped them to New York, and then into Ohio, for beneficiation, that it would be a dollar's difference between the price if you shipped from Montana to Ohio, provided that the GAS gave them the material.

Do you recall that testimony?

Mr. CROSTON. Yes, sir.

Senator ENGLE. And, on the basis of that, I concluded that the stockpile was useless and then subsequently in the testimony I asked if we did not have something in the order of $49 million committed out of the American taxpayers' money in this useless mountain of chrome.

Evidently, that is where the press picked it up. Your answer was that that was approximately correct as to the amount the taxpayers had in it.

I think, actually, it was a little bit more than that, because we had not considered the $3 million that was in the plant investment which would raise it nearly to $49 million.

Nevertheless, you said that that was approximately correct, but went on to say that you would not agree with my calling it useless; that you hoped in a couple of years to be able to do something with it.

I sent these gentlemen a copy of that record. In the light of the questions raised by Senator Bush on this same subject matter, I would be glad to have you further clarify the record if you can.

I do not mean to make it difficult for these people in the American Chrome. He complained that their stockholders would suffer by reason of this irresponsible and, what he called, ignorant statement.

I prefer not to be ignorant and the word "useless" was used in connection with the question and you made a qualification of that.

You said that you had hopes that over 2 or 3 years you could do something about it, and because it did come up and because Senator Bush raised the question, I would be glad to afford the opportunity to you for any further explanation you have.

I am interested in the statement that they regard that chrome stockpile as being worth $19 million, in light of the statement that you first made in your testimony, where you started out with the

chrome in Africa and talked about getting it over here for a dollar's difference, if you gave the material out of Montana for the purpose of having it beneficiated.

Can you cast any further light on that? I am sure American Chrome would be very much interested, as they probably will be of the idea, and Senator Bush's observation, that somehow this chrome, this mountain of chrome out there, is valued at $19 million.

Mr. CROSTON. Well, the statement I made is substantially correct, that if it was made into a ferroalloy, in one of the ferroalloy plants in Ohio, by one of the different companies, that we would practically have to give them the ore for nothing, if they were to use it——

Senator BUSH. Well——

Mr. CROSTON. And produce something at a comparative price now——

Senator BUSH. Will the Senator yield there?

Senator ENGLE. Yes.

Senator BUSH. Now, that establishes the fact, in my mind, that there is not any market value for chrome.

Mr. CROSTON. It is difficult to say, sir, because only yesterday a representative of a very large corporation came in and when I say "large" I mean a company that sells some $500 million a year of the material, and he told me that in the light of the discussions that went on here, they thought they could use this material for a different purpose——

Senator BUSH. Did they indicate a bid or suggest a price?

Mr. CROSTON. Not as yet and, of course, we have no authority to sell this.

Senator BUSH. No.

Mr. CROSTON. We have to get that authority from the Office of Emergency——

Senator BUSH. Well, if you got a bid for this pile that has been sitting there all these years, you might try to get some authority to sell it?

Mr. CROSTON. We certainly would.

Senator BUSH. But you have not had any indication of a bid?

Mr. CROSTON. No; there has been no indication to the present time.

Senator BUSH. My point is that I cannot understand how it is being carried at an estimated market value when there is no market for it at all.

I wish you would ask Mr. Knott to explain that to me, since you are associated with him there, and tell him that we discussed it in the hearing and I would like a further explanation of how the estimated market value of $19 million on this pile was reached when there is not any market for it.

According to all the testimony before the committee that is the fact.

(The information requested is supplied by John G. Harlan, the next witness.)

Senator ENGLE. Well, will the Senator yield again?

Senator BUSH. Yes.

Senator ENGLE. The wire I referred to from American Chrome, out of San Francisco, said that my statement, as they called it, and it was not a statement, but it was an adjective used in the question, was irresponsible and ignorant.

Now, I prefer not to be irresponsible and ignorant with regard to anybody's position, American Chrome or otherwise.

And I certainly concur in the request made by Senator Bush that if there is any justification for a $19 million figure we ought to see it, but in the light of the testimony that was given here, I just could not come to any other conclusion than that which is arrived at by Senator Bush himself, and that is that there was not any market value for it and, therefore, it was useless.

Now, I am perfectly willing to be corrected on the record and I join in his request.

Senator BUSH. Well now, Mr. Chairman, can we have an explanation to the previous question, of where we are going on tin?

Senator ENGLE. I thank you for yielding, because it was very pertinent.

Senator BUSH. Yes; I was very happy to.

Mr. COBURN. Well, as to where we are going on tin, this completes the tin hearings today.

But as to your inquiry as to why we have had these two hearings on tin, as I understand it, one of the chief things that the committee can contribute to the Senate and to the Congress, and the country, for that matter, in holding these hearings, is to determine what our policies and attitudes should be for the future so far as the management of the stockpile is concerned.

And it was our feeling that this very unfortunate experience that the U.S. Government had in 1951, when we were compelled or, at least, they tried to obtain from us very, very high prices on tin for the stockpile, when we were under the gun, so to speak, might be an interesting thing for us to bear in mind and know about insofar as our future is concerned.

The evidence has shown here that since that time we have acquired these substantial amounts of tin for the stockpile.

We are disposing of some of it, but we will have a great deal of tin in addition, over and above our surpluses left after this disposal plan has been carried out fully.

And I would hope that what we have learned here in the last two sessions might be some guidance for us as to whether we should dispose of that surplus as rapidly as possible or whether we should retain it for the purpose of preventing our being held up again, as we were in 1951, if some emergency should occur that would drive the price of tin to excessive levels.

Senator BUSH. I have no further questions.

Senator THURMOND. Any further questions?

Mr. COBURN. May I ask, Mr. Chairman, one or two questions of Mr. Croston before we close, that have to do with reference to this chrome matter?

Senator THURMOND. Yes.

Mr. COBURN. In the first place, does the American Chrome Co. have a proposal pending at the present time with GSA to beneficiate these concentrates into metal?

Mr. CROSTON. No, sir: not to my knowledge.

Mr. COBURN. Not at the present time?

Mr. CROSTON. They made a proposal about 5 years ago and it was turned down.

They made a proposal to the Department of Agriculture within the past year, I believe.

Mr. COBURN. Is that still pending, do you know, with the Department of Agriculture?

Mr. CROSTON. I have no direct knowledge, but it was my understanding they were turned down.

Mr. COBURN. So they do not have any pending proposal then to beneficiate this ore?

Mr. CROSTON. Not with GSA.

Mr. COBURN. Now, so that we may pursue this matter of the placing of a market price on some of these items in the stockpile, who is it in GSA that fixes or determines the market prices on the items in the stockpile?

Which division is it of GSA?

Mr. CROSTON. Well, in a number of instances we do it where there is a regular market price. It is simply a calculation, and we cooperate with the Comptroller's Office.

In some of the other materials, where there is no market, various estimates have to be made as to possible future uses——

Mr. COBURN. Well now, that was not what I asked you, Mr. Croston. Listen to what I asked you.

Who is it, who in GSA, has the responsibility for fixing the market price on the items in the stockpile?

Mr. CROSTON. I would say the Comptroller's Division.

Mr. COBURN. The Comptroller's Division.

Mr. CROSTON. Yes.

Mr. COBURN. Who is the head of the Comptroller's Division?

Mr. CROSTON. Mr. Turpin.

Mr. COBURN. Who?

Mr. CROSTON. Mr. Turpin.

Mr. COBURN. T-u-r-p-i-n?

Mr. CROSTON. Yes, sir.

Mr. COBURN. What are his initials?

Mr. CROSTON. W. D.

Mr. COBURN. W. G. as in good?

Mr. CROSTON. W. D. as in dog.

Mr. COBURN. Now, as to the items in the stockpile that have a ready market value, of course, it is easy there to determine the market value at the end of any fiscal period. Is that not right?

Mr. CROSTON. That is correct.

Mr. COBURN. But there are a good many items in the stockpile, a number at least, that do not have a daily or ready market value?

Mr. CROSTON. That is correct.

Mr. COBURN. This chrome concentrate that we were dealing with in connection with the American Chrome Co., being of a low grade character, did it have a daily market value?

Mr. CROSTON. No, sir.

Mr. COBURN. In the instance of items of that kind, do you undertake to make an estimate only when you determine the market value at the end of any particular period?

Mr. CROSTON. That is all that can be done on the subspecification materials.

Mr. COBURN. So that, Mr. Chairman, as I recall it, maybe more times than one, I have said these market values that were carried in this basic table that we have of all the items in the stockpile should not be taken too seriously, because it did include a number of items that do not have a ready market value, and they are really nothing more than an estimate.

And I say again that I think, before our hearings are through, that we will reach the conclusion that the market value listed in our basic table is high.

It is on the high side——

Senator BUSH. If counsel will yield there, I would just like to express the opinion that if we are going to have market values estimated at all there ought to be some real substance to them, and they ought not to try to guess at a potential market value as that does not do us any good at all.

If we are talking about market value we are talking about a value that can be actually obtained on the market, and I do not think that it really does much good.

It is all right to quote the unit market value of the article, if there is such a thing, but that does not help you really to establish the market value of a big pile of chromite, for instance, where actually you cannot sell any of it at all.

Mr. COBURN. I agree with you, Senator.

Mr. CROSTON. That is perfectly correct, and we are very unhappy about having to do it, ourselves.

Senator BUSH. Well, why do you not stop it?

Mr. CROSTON. GSA, of its own account, would never put any market price for a substantial——

Senator BUSH. Why do you do it then?

Mr. CROSTON. It is the request of the Congress.

Senator ENGLE. Will you yield?

Senator BUSH. I will yield to the Senator.

Senator ENGLE. I understand that Mr. John Harlan, who is Deputy Commissioner for the Defense Materials Service, is in the audience and could comment on this and as to how it did get in there.

I ask the chairman to call him up to comment and add to this record right at this point.

Senator BUSH. You mean that the Congress has imposed this requirement by law upon you?

Mr. CROSTON. I don't believe so by law, sir, but we get these requests for various tabulations, and it was my understanding that they wanted a valuation placed on everything, including the subspecification materials, and we are very unhappy to have to put a quotation on something for which there is a very doubtful market.

Senator BUSH. Well, I think you ought to tell any inquiring Congressman that that is the fact.

Congress has not imposed any requirement upon you, as I see it. You do not have to do this.

It is much better to tell an inquiring Congressman or any inquirer, who has a right to inquire, that "we cannot estimate the market value on this; there is not any market for it."

And besides, if you do have a quoted price, if you can go to a unit price, to say that the pile or whatever the stockpile as a whole is, it

is worth that, because the unit price, as counsel points out, is very misleading, too, because as he also developed this morning when you disclosed that you have something for sale, why, whammo, down goes the price.

Now, I suggest that you revise your practice and not establish a market of prices up there on anything except where you can really say that this is a true market value.

Is this gentleman going to say something on that?

Senator THURMOND. Senator Engle has suggested that Mr. John Harlan comment on that, and he is here.

Is there any objection on the part of the committee of hearing Mr. Harlan at this time?

Senator BUSH. On this point?

Senator THURMOND. On this point and on any other points on which he can furnish information for this subcommittee.

Senator BUSH. And who is this gentleman?

Mr. COBURN. May I identify for the record Mr. Harlan, Mr. Chairman, so the record will be straight?

Mr. John Harlan is here.

STATEMENT OF JOHN G. HARLAN, JR., DEPUTY COMMISSIONER OF DEFENSE MATERIALS SERVICE, GENERAL SERVICES ADMINISTRATION

Mr. COBURN. Mr. Harlan, you are Assistant Administrator of GSA, are you not?

Mr. HARLAN. No, sir. I am Deputy Commissioner of the Defense Materials Service.

Mr. COBURN. Oh, excuse me.

Senator THURMOND. There being no objection, on the part of the subcommittee, Mr. Harlan, you may go ahead and make your statement.

Mr. HARLAN. Senator Bush, the price of $19,700,000 which was placed on the stockpile of chrome, most of which is at the location in Nye, Mont., and which was referred to in the hearings the other day, is strictly a bookkeeping value, placed on that chrome, arrived at by taking the market price for specification-grade chrome of 48 percent, reducing it by a penalty factor, by the specification of the material at Nye, Mont., which is 38 percent, and arriving at a figure which, I believe, was $20 a ton and multiplying it by the tonnage there.

The reason for placing these kinds of prices on this sort of material is primarily for the purpose of striking a balance in the Defense Production Act borrowing authority, so the Comptroller's Office has been required over the years, in reporting to Congress and in reporting to the other responsible offices on the balance in the Defense Production Act to place the value on these, and I confess to you, sir, that it is very difficult to arrive at values on these materials.

And it is a very dangerous thing to really consider them as being honest values.

They are the best values we can arrive at on the basis of the best market information available to us.

Senator BUSH. Well, I think your explanation is clear enough, but I still do not think it is a very good one, because you are placing, or you are placed, in an impossible position when you try to put a market value on a thing like that chromite pile.

Mr. HARLAN. That is very true, sir.

Senator BUSH. I think it is much better, rather than to try to strike a balance of $19 million, to leave it out altogether, because as you say you start with a 48-percent factor and you reduce it to whatever it is, 38 percent, but actually at 38 percent it is not marketable at all.

Mr. HARLAN. That is right. If you take into consideration the transportation and handling factors, it comes down to a zero value at this moment where it would be used.

Senator BUSH. Well, I think it would be better for the Government to face the facts of this thing squarely and not send out information or publish any information that is not thoroughly reliable.

Mr. HARLAN. It is strictly a bookkeeping transaction.

Senator BUSH. Well, I hope the people will change their methods. I think it would be much more satisfactory from your point, too.

Mr. HARLAN. I agree.

Senator ENGLE. Will you yield?

Senator BUSH. Yes.

Senator ENGLE. On the other hand, if you just took this chrome stockpile and called it useless or worthless, for which the American Chrome Co. called me irresponsible and ignorant, and it is bad enough to be ignorant because that means you are wrong on the facts, but it is worse to be irresponsible because that means you do not have any moral responsibility—and I do not want to be either—but if Mr. Croston's testimony, as appears here in the record, is correct, I came to the conclusion that it was useless and I subsequently asked him about that, and he challenged me on that point and said that they are going to try to do something about it.

But when you try to put a valuation on it, if you put a zero valuation on it and subsequently try to sell it, you would be in a very poor marketing position, would you not?

Mr. CROSTON. That is very definitely one of the things where we hesitate——

Senator BUSH. Mr. Chairman, if the Senator will yield back to me, I am not suggesting that they put a zero value on it.

I am suggesting that they do not put any valuation on it because they cannot arrive at one. That is my point.

Senator ENGLE. You would not put a zero value on it?

Senator BUSH. No; I would not admit it was worth nothing. It is something that has to be disposed of in some way sometime possibly, but I would not put a zero valuation on it because that means that you give up hope of it ever being worth anything.

Just say there is no market.

Senator ENGLE. What he says here, and this is Mr. Croston's testimony, is, "It has no value for stockpiling purposes because we have a great excess of high-grade chromite concentrates and chromite lump ore on hand."

But it goes on to say, and I will add this to keep the record complete, "But we will be able to salvage something from this. I hope."

Senator BUSH. Well, there you are.

Senator ENGLE. And I want to be perfectly fair to the people about it but I just cannot help but conclude that we are in a sad shape with this mountain of chrome out there in Montana.

Thank you very much, Mr. Chairman.

Mr. COBURN. Mr. Chairman?

Senator THURMOND. Are there any more questions of this witness?

Senator BUSH. Not from me. I was very glad to have his clarification.

Mr. COBURN. May I ask just one more question here of Mr. Harlan?

Senator THURMOND. Yes, sir.

Mr. COBURN. Mr. Harlan, in line with the point that Senator Bush has made here, would there be any or might it not be an administrative improvement, so far as the operation of the stockpile is concerned, for you to only undertake to put a value on the products that are in the stockpile that have a market value, and leave the other values or, I mean, not undertake to put a present value on the items that do not have a ready market value?

Is there any reason administratively why that could not be done?

Mr. HARLAN. I am told, Mr. Counsel, that in order to arrive at what is known as the probable ultimate net cost of the Defense Production Act borrowing authority activities, it is necessary to place a value on the assets acquired under the Defense Production Act activities and, for this reason, we have been placing, to the best of our ability, values on these materials even though some of them, technically speaking, do not have a market value.

Mr. COBURN. Why do you have to arrive at a net cost on Defense Production Act activities?

Is that required by law or regulation or something of that kind?

Mr. HARLAN. Yes, sir, I believe it is required by law.

We are required to report periodically to Congress on the status of the account which is a borrowing authority, as you know.

Mr. COBURN. But reporting to the Congress on the state of the Defense Production Act activity may not require putting a market value on articles that do not have a market value, it seems to me.

Now, I do not know, but it seems to me that that might be true. Well, you might give that consideration.

Mr. HARLAN. All right, sir.

Senator THURMOND. No more questions of this witness?

Mr. Witness, you are excused.

Mr. Croston, you are also excused.

Mr. Clarence W. Nichols, special assistant to the Assistant Secretary of State for Economic Affairs, was requested to be here but the chief counsel has decided not to examine him this morning.

If there are no other witnesses today the subcommittee will recess until the call of the Chair.

(Whereupon, at 12:12 p.m., the subcommittee adjourned, subject to the call of the Chair.)

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