

32. BIDDING PROCEDURE FOR THE PURCHASE OF OIL FIELD TUBULAR GOODS, LONG BEACH UNIT, WILMINGTON OIL FIELD - W.O. 5200.309.2.

During consideration of Calendar Item 30 attached, and before hearing witnesses, the Executive Officer noted receipt of the following for the record:

1. From the City of Long Beach, as Unit Operator, transmitted for itself and the Field Operating Contractor, a statement that the City endorses a policy recommended by THUMS, the Field Contractor, favoring domestic purchase of tubular goods, which adds a possible third alternative for Commission consideration to those reported in the calendar item; specifically, rescission of the existing resolution and concurrence in the recommendations of the Field Contractor and the City of Long Beach relative to pipe-purchasing procedure and standards.
2. Three letters supporting continuation of the present pipe-purchasing procedures, as follows:
 - a. Letter dated April 19, 1967, from Paul Lucas, General Manager, Western Division, Mannesman Export Corporation.
 - b. Letter dated April 21, 1967, from Rae F. Watts, Port Director, Port of San Francisco.
 - c. Letter dated April 24, 1967, from William F. Flay, Jr., Vice President, Tricon, Incorporation.

The following witnesses then appeared:

FAVORING UNRESTRICTED COMPETITIVE BIDDING

1. Jack Gomperts, President, Scandinavian Cooperative Wholesale Association of California, on behalf of California Council for International Trade.
2. Robert J. Kilpatrick, Attorney-at-Law, Long Beach, representing Pipe Sales Company.
3. A. S. Hayes, Union Pipe, Inc., representing Sumitomo Metal Industries, Ltd.
4. David A. Hayden, Attorney-at-Law, representing California Council for International Trade.
5. Albert Ferrish, Chairman of the Board of Foreign Trade Association of Southern California, and Director of West Coast Metal Importers Association.
6. Nelson A. Stitt, Director, United States-Japan Trade Council, Washington, D. C.

FAVORING RESTRICTED BIDDING, LIMITED TO DOMESTIC PRODUCERS

1. Richard C. Bergen, Attorney-at-Law, representing the California Oil Field Suppliers Association
2. Dr. John R. Van de Water, Economic Consultant
3. Gerhard Rostvold, Consulting Economist
4. A. L. Peake, Manager of Sales, Kaiser Steel Corp., Oakland

Following presentation of testimony, the meeting recessed at 12:20 p.m. for lunch. The meeting reconvened at 2:05 p.m. for rebuttals, as follows:

REBUTTAL FAVORING UNRESTRICTED BIDDING

1. Nelson A. Stitt
2. Robert J. Kilpatrick
3. Professor Robert F. Rooney, Economic Consultant

REBUTTAL FAVORING RESTRICTED BIDDING, LIMITED TO DOMESTIC PRODUCERS

1. Dr. John R. Van de Water, who took issue with the rebuttal statements made by the side favoring open bidding, claiming that these were not merely a rebuttal, but that new information was presented. He stated that Dr. Rostvold had been released to go back to Los Angeles, and therefore was not available to answer this new testimony, and indicated that it would require a written response.
2. Richard C. Bergen

In fairness to all, and so that the Commission could have complete data on which to base a decision, it was ruled that additional written statements could be presented, these to be in the hands of the Commission not later than May 15, 1967.

It was stipulated that everything that had been introduced during the meeting was to be a matter of public record.

The Commission made the following requests:

1. That Messrs. Bergen and Kilpatrick submit briefs within a period of two weeks on their additional testimony.
2. That the Office of the Attorney General submit a brief, outlining the legal role of the Commission.
3. That the members of the THUMS consortium, going as far as they choose to go, indicate what their interests are in Japan particularly and also in other countries in the Pacific Basin, going to the question of whether or not they would normally restrict their purchases to domestic suppliers.

4. That the staffs of the State Lands Division and of the Office of the Attorney General resolve the following question before the next meeting of the Commission: If the existing resolution were rescinded, what other controls or yardsticks could be exercised by the State Lands Division so that the Commission would be able to determine whether or not the State was receiving the maximum return on the economic use and development of its resources
5. That the staff of the State Lands Division submit a report on whether or not it is the normal practice of American petroleum companies to purchase pipe domestically.

For a complete verbatim report of the testimony and discussion, see the reporter's transcript, copy of which is on file in the Los Angeles Office of the State Lands Commission.

In addition to the written statements noted as received at the beginning of this minute item, and the oral presentations made during the meeting, the following letters and written statements also were submitted to the Commission:

1. "The Benefits to the State of California of Unrestricted Bidding for the Seamless Tubing Requirements of the THUMS Project" -- by William R. Allen and Robert F. Rooney of the University of California.
2. Letter of April 25, 1967, from Jack L. Frost, Controller, Calcot, Ltd.
3. Statement by Jack Gomperts, President, California Council for International Trade.
4. Statement by Albert Perrish, Chairman of the Board of Foreign Trade Association of Southern California.
5. Statement of Nelson A. Stitt, Director, United States-Japan Trade Council, Washington, D.C.
6. Statement of A. S. Hayes, Pacific Coast Manager, Union Pipe, Inc.
7. Statement of David A. Hayden of Graham James & Rolph, Attorneys for The California Council for International Trade.
8. Statement of Robert J. Kilpatrick, of Wise, Kilpatrick & Clayton.
9. Statement of Lee Peake, Manager of Sales, Kaiser Steel Corporation.
10. Letter of April 25, 1967, from D. M. Anderson, General Manager, Sunkist Growers.

Attachment
Calendar Item 30 (2 pages)

30.

BIDDING PROCEDURE FOR THE PURCHASE OF OIL FIELD TUBULAR GOODS, LONG BEACH UNIT, WILMINGTON OIL FIELD - W.O. 5200.309.2.

On September 23, 1965 (Minute Item 27, page 11,749), the Commission held a public hearing on the approval request by the City of Long Beach and THUMS Long Beach Co. for a restricted bidding procedure for the purchase of oil country tubular products to be used in the development of the Long Beach Unit of the Wilmington Oil Field. Thereupon, the following resolution was adopted:

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

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

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

Reconsideration of the foregoing procedure has been requested by representatives of producers and suppliers of U. S. steel products.

A review of the 18 months' experience in unrestricted bidding for tubular goods for use by the Long Beach Unit has been completed by the State Lands Division in collaboration with the State's consultants, DeGolyer & MacNaughton, and with the cooperation of the City of Long Beach and the Field Contractor, THUMSCO.

In summary:

1. Unrestricted competitive bids have been let for the purchase of 18,153 tons of oil country tubular goods through the first half of 1967, for a total cost of \$4,206,129. The Long Beach Unit has realized a net price differential of \$611,093 or 12.68% in comparison to costs of such goods if they had been purchased similarly from domestic suppliers.
2. 79 bids have been awarded, in which foreign suppliers were successful on 64 bids. In all cases where there was direct competition between domestic and foreign suppliers, foreign suppliers submitted lower bids.

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3. Best bid results have been obtained where minimum delivery time has been 90 days or longer, both for foreign and domestic suppliers. Requests for bids made on a basis of requiring less than 90-day minimum delivery time have resulted in higher bids by suppliers. Continued use of a less than 90-day delivery period could materially increase the Unit's costs for tubular goods. Such increased costs would approximate \$250,000 during the next three years (1967-1970). With good planning, however, a lead time in excess of 90 days can be achieved, minimizing the possible \$250,000 loss without inconvenience to the Unit Operator or the Field Contractor.
4. Tubular goods returned because of pipe-program changes have been minimal, and carried out without loss to the Unit. Well-casing programs are presently standardized. However, if pipe-program changes requiring tubular-goods alteration occur in the future, a 90-day delivery policy would still prevent inventory losses of any appreciable magnitude.
5. No in-zone pipe or casing failures have occurred that are attributable to faulty pipe.

On September 3, 1965, the office of the U. S. Secretary of Commerce reported to the Commission on the subject matter: "We see no basis for Federal involvement in what appears to be a strictly local or State of California matter. Insofar as there is public involvement, any conditions on equipment procurement would seem to depend solely upon State law or administrative practice." This position was reconfirmed in a letter on January 4, 1967, stating: "Our position on this subject remains the same as outlined...in...letter dated September 3, 1965."

The City of Long Beach as Unit Operator and THUMSCO as Field Operating Contractor have each been requested to transmit statements to the Commission on their respective positions on tubular-goods purchasing procedures and standards.

Representatives of domestic producers and suppliers and of foreign suppliers have requested the opportunity to present further data and statements to the Commission.

In view of the foregoing information, the materials submitted to the Commission, and the arguments to be presented by the Commission, it is apparent that the Commission will have the following alternatives for consideration and action:

1. Affirmation of the existing resolution directive of September 23, 1965 (Minute Item 27, page 11,749).
2. Rescission of the existing resolution.