

Notes to draw on - BMS

CIA types

Mama Lukin

Ellis

Yotopoulos

Schumker

Boris

Lee

Sankar?

Rogers

Klotsche

"Hawk-talk"

Catton, Bruce, "The War Lords of Washington", NY, Harcourt Brace, 1948

Good stuff, on politics in Wash during war, how big industry
\$-a-yr men took care of selves, restricted production early years, etc.
Conversational, prolix, light -- but loaded.

Pentagon Papers

Rich foreigners influence U.S. politics. They have to. Since U.S. politicians & civil servants accept money & deferred brides domestically, & we tolerate it, why not from China Lobby, sugar states, Trujillo, etc.?

p. 29 The purpose of 'aid' is not ec. dev. or any such academic top. It is to "strengthen the indigenous non-communist governments of the area."

"Stability" & "security" are the key goals mentioned continually - not progress, development, justice, equity, or anything like that.

p. 40 Dulles in 1954 referred to not wanting U.S. alone to salvage Brit. & Fr. interests in the area. Suggesting U.S. ownership was slighter.

Hypoth. since then, U.S. firms have bought up leases etc. cheap, so now it is our "national interests".

There is no mention of the MSU team.
Ask Mike Taylor, Dick Lindholm, etc

LBJ in '64 pretty much engineered the Tonkin Gulf incident. ~~Used U.S. destroyers as "bait"~~. Destroyers were in Gulf while "34A" raids were occurring. Called De Soto patrols, they collected info useful to raiders, altho not operationally integrated. p. 240

after incident in Aug. (attacks on Maddox) JCS & McNamara set forth a provocation strategy to create pretext for bombing north. p. 240

34A raids were mainly provocative. Not expected to win, only to commit.

Adm. knew that Minh or Khanh wd. lose an election. Knew they were losing in south.

Therefore

a. Opposed elections, union, etc.

b. Diverted attn. to north. p. 241

They simply could not understand an indigenous idealistic social movement. The kind of man who works his way up a modern bureaucracy is just not sensitive to that at all, any more than they cd. grasp great religious ~~teachings~~. They had to invent a huge outside force of their own kind — a hierarchy — I credit that.

CIA told them, p. 242, that southern strength was indigenous.

p. 243 Adm. sought to prolong the war bcs. it knew it wd. lose any peace.

p. 251 Wanted to avoid calling up reserves.
(and I think they did avoid it. Reserves are a boondoggle.)

p. 255 John McNaughton, on U.S. aims.
"70% to avoid a humiliating U.S. defeat (to our reputation as a guarantor)."
(again, the concept that complete control is needed).

Wm. Bundy Memo, pp. 296-98, states clearly the desire to provoke attack, avoid negotiating.

'71 TRED

Benefits of Military Spending

— Who runs govt? Whose interests are paramount?

Indirect evidence

- Who receives most favored tax treatment
- Who contributes most to campaigns
- Whose personnel move easiest in & out of top govt. offices?

Minerals, energy, oil

- What elements do we support abroad?

— Absentee ownerships are larger

Record from U.S. agric.

L.C. Gray on land specs.

Paul Gates

Livermore. Etc. from my diss.

— Mil. bases

They are not p.w. No direct benefits.

Yet are prized, logrolled. Indirect benefits.

Pentagon papers show:

— Johnson adm. above all sought positively to involve U.S. in war

Was not responsive to U.S. popular will. Sought to manipulate it. Papers do not show to whose will he was responding.

But LBJ was leading oil senator all his prior career.

— U.S. has strong hold over govt.s of S. Viet Nam, Laos, Thailand, Philippines.

— Domino theory prevailed. Idea was to:

a. Secure all s.e. Asia

Answer to "what U.S. interest is there" was never answered. So one must look

i. We own little in SVN proper, probably.

Our influential rich French allies certainly retain rubber plantations, & no doubt other holdings, like Spanish in Philippines, & French in Tunisia, Algeria.

ii. Am. business in Bangkok

iii. Offshore oil.

b. Impress whole colonial world with our strength. Lat. Am., Africa, Asia. John McNaughton said this was 70% of our purpose. (p. 255)

c. SVN not needed as mil. base. We have plenty.

d. Query: why did Japan want SVN in co-prosp. sphere, & why did FDR draw line there? Even then we wanted it. Why?

See E. Janby

— JFK & RFK both shot. Why?
Refused to escalate war? Threatened oil?
Seek clues in JFK period.

— The "free world" consists mainly of military dictatorships, U.S. puppets.

We line up with mil. dictators every time: Greece, Spain, Viet Nam, Venezuela, Brazil, Guatemala, Salvador, Santo Domingo, Pakistan, Turkey, Iran, Saudi Arabia,

— Domino theory betrays acute sense of insecurity & guilt, dependence on power.

Lose one, lose all — cartel thinking. One maverick in world markets can break the structure.

Nat. Sec. Co. '52, said SVN fall would endanger Middle East. (p. 21)

"S.E. Asia, esp. Malaya & Indonesia, is the principal world source of natural rubber and tin, and a producer of petroleum..." p. 21.

Rice exports of Burma & Thailand, also mentioned.

None of these is "strategically important" in the sense that we require it. (except maybe tin.)

More likely is this: primary export products from less developed tropical countries are usually absentee owned, and/or controlled as to marketing.

Owners want to keep rents & As.

It is only partly relevant that the absentee owners are not all American. There is a world community of interest among the wealthy & powerful. They are an international society. They protect each other. (Thus, when a war is won vs. By, or Spain, the losing landowners go back to collect rent; the winning soldiers go home to be unemployed.)

Wm. Bundy knew all along ~~Chicom~~ Hanoi did not want Chinese involvement. p. 430

p. 499 "It proved much more difficult, in the face of general oil shortage, to allocate from less important to more important uses than the simple arithmetic of the problem would suggest. Oil moves in various logistical channels from central sources. When the central sources begin to dry up the effects prove fairly prompt & widespread. What look like reserves statistically are rather inflexible commitments to logistical pipelines."

— W.W. Rostow, 5-6-66. (Emph. mine)

p. 581. "After all, the military rule, even in peacetime, in Thailand, Indonesia, and Burma."

— Wm. Bundy. 5-30-61.

This is the "free world".

On one hand, cos. want to max. sources,
to min. local bargaining power.

On other hand, want to control all
world sources, avoid collapsing cartel
(domino thfy. really applies here!)

Both lead them to keep exploring &
expanding.

So it's not just to get simple Δ .

It's literally to control the world!

11. Miners are isolated.

They command little local support. Their v.r.s are single purpose.
So they need natl. power.

12. Miners, as employers, may oppose local growth, to depress wages.

(But wages are low share of their costs.) They have more

to fear from taxes. So they oppose local govt. —
and use U.S. govt. in preference.

13. How can fir. cos. influence politics?

Just as they do in U.S., only easier.

14. Preternatural; inflated; exaggerated; turgid; swollen.

15. The no. of firms involved in U.S. fir. inv. is small —

i.e. control is highly concd. This follows historical
patterns.

20	mining cos.	have	95%	assets
24	oil	..	93%	.. etc.

So these few firms — & the few banks that control
them — are leading us all around by the nose. Each of us has a
ring in his nose.

Jein Zwartendijk

Nat. Res. Brandy

Dept. of Energy, Mines, & Res.

Ottawa, Ont.

Send paper for review.

War comes when we give away overseas privileges w/o
compet. bidd'g, open scrambles.

Air routes
Shipping routes

Oil leases off Vietnam

Trade concessions -- we probly must get over any idea that
bus. abroad is very competitive.

Contracts to supply Navy, Air Force, Army. E.g. w. fuel.
These are outside quota system, says Joe Lerner.

Rt. to do bus. in oil in Persian Gulf under Am. flag.

Since only a handful qualify, & they have use of armed forces. And
provide them w. info. — work closely. Import quotas, (see
Barney's paper)

✓ Raising for quotas, based on history of prodn. ^{for importing} (Major buy for oil
cheap for Am. quota. Then get it lifted)
Polar region. How claim? Set there, establish position.

Like barrel of oil.

Major don't suffer from quota. They set to sell in U.S. at hi price.

Am. firms lower Am. taxes by promotional losses

overseas. We even let the \$ be devalued. But who does
anything about overseas inv. credit?

Mineral reg. gives concessions to strippers, but not to intensive

min. This epitomizes policy. We discourage the intensive min., i.e. full use
of best land. Encourage extensive min. as w. oil producers. Let high-cost

wells produce 30 days/mo.

Our system is full of things that damage margin.

But we compensate by subsidizing extensive mgn. various ways, esp. p.w. & mil. action.

Case of oil, we hurt marginal by prorate. But then compensate by deple. allowance[†] (but note limit to 9% of net) & exception of incl. mines.

✓ By not taxing non-prod'g reserves, we encourage expln., defer use.

By cartel syndrome, hold back best reserves, encourage incl. states.

Some minerals are incl. now, but unripe for use bec. they will ripen. The Δ in value is untaxed. System

encourages them above all. Expense expln., no tax on Δ , & deduct deple. at well head values. Wow. So instns. esply. encourage acquir'g incl. grow'g res.

Am. Corp. can lower Am. taxes by exploring overseas; then pay no taxes on Δ cap. value resulting. Enormous thrust.

No wonder we are all over the world. Explorers are outlaws,

[†] Deple. allowance based on well head value, so incl. mines get as much as better mines.

& scouts. Used by, & me, State Dept. Anti-trust case

Expln. is secretive, anti-social. Acquisition.

Prior appropn. was a mining custom first, moved from there into water law.

✓ U.S. mil. bases & pol. influence establish Pax Americana.

From viewpoint of oil co., is best to acquire rts. to resource before Pax, to capture appropn. that follows. So they run out ahead of their interference. Acquire cheap, gain Δ . Ditto for

repeating quotas. But by being out front, they provoke U.S. intervening, like ground water rescue projects, or flood control.

✓ Trick is to get out there in front of U.S. marines, acquire land. So cal has 100 m.a. (Eng. had free trade at time when she was great absentee

owner & lender. U.S. pressure for free trade similar.

Raise value of fr. land owned by rich Amers. That's not really good free trade.)

Open tenure brings in over inv. in ϕ discovery. Weak fr. nations are a sort of open tenure, from nat. view point.

We seek to get in there. Am. capt. & engs. are levers for later marines. We use other levers of power: subvt. control, etc., aid, ϕ sugar quotas, coffee agreements

So we & rivals race to establish control. It is not
discovery, but mil. outlays that create tenure. They also
eat up entire value of gain.

To monetize, urgency even greater. He must control
world supply to avoid compen., &/or blackmail. So he hardly
considers just cultivating his own garden. He must stop
others. This is sometimes called indy. leadership.
It wd. only take one maverick to upset a whole cartel structure.

Foreign extraction also gets deple. allowance.

E.g. Aramco. (evidently lessee can take it, if Am., &
owner is foreign.) Bigger cos. get most of their after tax
profit from overseas.

If royalty to fr. owner is called a tax, is a Tax
Credit, can deduct from U.S. taxes, in full.

1956, Aramco to Saudi Arabia,

"Royalty"	— \$80 m.
"Tax"	— 200 m.
Σ	— 280 m.

Thus fr. invts. get favored tax treatment. Recall also
repatriation loophole.

U.S. force wd. like to accommodate discovery by
closing off open access. But they must know where to go.
Explorers must seek, to tell them.

Paternalistic landowners in turbulent areas like to
bring in strong fm. power to force govt. Then they
collect their rents, relieved of public frs. & duties.

The pattern.

To valorize land, owners hold some back. (see Cont. pol.; ag. paper.)

The dispossessed & unemployed outmigrate.

Some landowners resist. Others join the move, buy land in new area, spec.

Unemployed plus spec. landowners join Manifest Destiny.

✓ Plus transportation interest. Canal cos, rails, highway lobby, airlines, shipping interests. Sellers of energy fuels: coal, oil.

Out thrusting combo. of instns. at every level, re every resource. Sum of micro patterns is a macro pattern

Names for phenomena.

Cont. - exp. syndrome.

Manifest Destiny. Westward expansionism. Territoriality. Imperialism.

Mercantilism. Land grabbing. Out thrust. Claim jumping.

Promotional, developmental rates.

Sources. ERT. Cont. Pol. Farm Pol. Land & Rent in Welfare Ecs.

We used to colonize. Now we just own.

War

1. Imperialism.

Neglect to develop what we have; grab for fringe areas.

~~24~~ Woven into culture. We don't even realize it.

But how do you think we got out here? Raising

Canadians, Mexicans, Russians. How did Canadians

get out there -- ridic. med. east-west links,

instead of Pacific & Atlantic

Hydro-imperialism as e.g., in Cal.

S.F., neglecting near-in whs., & Tuol. -- resursect

detail.

Bias to premature exploration. (e.g. fac producing props, not reserves)

EBMUD grabs Mohelmann.

L.A. grabs Colo., Owens, F.R.P.

Agric. grabs.

"Territorial Imperative" Audrey b.s. Julius

Fast, Body Language, exploitation.

Not struggle for mths, but for new mths.

✓ Now, we fight for oceans. Nations not likely to invade ea. other. They fight for weaker areas, unsettled areas. Fight over fringes.

B. 7 lay follows "Trade". Leverage of port. over public.

"Trade" a euphemism. Resource grabbing.

B.S. about nat. defense being a pure public

good, all benefit equally.

Mexican won as precedent. Am. settlers in T.S. Also Ha.

Also like Brit. in India.

Guatemala, U.F.

Persian Gulf (ERT)

Cuba

Oil in Viet Nam

Am. Zannuists there, Review Enrich

Jauby; Ramparts etc.

2. Unemployment

Report from Iran Mo.
Labor support of SST
~~Weapons~~

John Connally.

3. Unrepresentative govt.

Oil cos. can use U.S. power for prof. gain. And use proceeds to
fin. campaigns.

4. Log rolling

Weapons constituencies

Local labor is enlisted to help Munro, but

local landowners mainly concerned.

E.g. Cape Kennedy boom
Bayport

So. Cal.

Not just final stages of weapon prodn. + least
benefit. ~~AM~~ Mil.-indl. complex includes oil cos. —
mil. consume enormous fuels, steel, etc.

"Camp followers" = prostitute. But the female bird is
hardly the problem.

5. Diversion, distraction.

Privileges benefit by keeping people
in constant alarm.

6. Reconcile systems. Exaggerated inability to
reconcile, bcs. our fear of land reform. But also, too orgd. at nat. level.

7. Free trade We shd. org. to merge, but not to
+ threaten. Seduced by free trade.

8. Free immigration.

9. Joint enjoyment of oceans.

10. Mil. machines. Distrustful, suspicious, self-contained.

(Ecos. shd. be self-contained in sense of using res. intensively.
But govt. need to be absorptive, merging.)

1. Free Traders easily go astray, miss point.

To Eng. free Trade meant getting foreign raw mtl.

Owning them, & dominating their colonies. de Beers; Persian Gulf; Antipodean wool; Canadian grain; plantation agr. manufacture.

Also us in Cuba, banana republics, Chile, Peru, Venezuela, Phillipines. Stamoa in E. Indies. Aramco. (Mikdash; Leeman).

Free Trade is not so great a peacemaker if we go in as absentee landowners; or if we deal w. local landowners & help them exploit local labor, as Eng. did w. slaveowners of old S.E.

Much of what we call intl. Trade today is like that & is not blessed. (cf. Alaska & Japan)

Solutions

1. Subst. labor for land
2. Free Trade
3. Free immigration, based on Δ demand for labor due to new instn.
4. Grant access to U.N.
5. Use market more, govt. less, ease rules

PARTIAL OUTLINE OF MASON GAFFNEY'S TALK:

ECONOMIC CAUSES OF WAR

(National Conference of the Henry George Schools 7/8/71)

1. Imperialism --our institutions prevent the highest use of the best land. Examples:
 - a. San Francisco water policy--Hydro-imperialism
 - b. Nation's farm policy -- we take good land and remove it from use
 - c. International: Minerals are the resource over which nations fight.
Oil-Military -- Pro-rata system in oil production which holds domestic oil in reserve, bolsters price and encourages us to scout overseas.
2. Unemployment -- counterpart of policies that keep resources from being exploited.
Connally: "We're going to continue to fight inflation, not unemployment." 4% unemp. is preferable to having a war.
War as a means of combatting unemployment.
3. Unrepresentative government
 - a. Presupposes that U.S. Congress doesn't represent the populace too well due to the need for large sums for re-election and the need to repay with appropriate legislation.
 - b. Armed forces can be used for special interests -- protecting mineral holdings in the presence of unstable govts.
 - c. Junction City, Kansas, is in the Ft. Riley business.
 - d. Corps of Engineers, log rolling in other ways, etc.
4. Un-free International Trade -- Often "free trade" has been limited to areas from which natural resources were being drawn.
Now U.S. is "Mother Country" for the rest of the world.

MASON GAFFNEY 7/8/71 outline cont.

Oil-quota system causes the oil companies to have the privilege of selling at artificially high prices in the U.S., and allows them to buy oil land (or long-term leases) at low rates, and then be able to exploit them when the world price of oil has risen.

Huge transportation lobby: Oil, auto manufacturers, trucking and highways -- these 4 together pretty well run the country.

5. International Migration, barriers to

To have foreign soldiers come to your land and intermarry and fight on your side evens out population pressures around the world and aborts wars.

Because of our institutions we can't do this, and instead use 10x the natural resources needed

Thus we think California is running out of water and we panic against immigration, even from other parts of the U.S.

Lubell forecasts Nixon wd. lose today hrs. of war.
Draft.

Nat. defense is a "public good" — all benefit
equally. Ha! Oil cos. get leases offshore. In return, support
govt. a fair trade. Hold it! Draftee pays. Wage earner
pays. Oil co. gains -- I pay no taxes!

All due to campaign money.

Will be no peace until people capture their own govt.

Get off land-ass in front of TV. Participate.

Politics as a spectator sport, goes to rich.

Or, insist on cable TV, cheap channels, ~~for money~~ &
free ones for candidates. Limit nos. by something other than money.

Business People

Douglas Named to SIA Council

W. Leslie Douglas, vice president of the Washington brokerage firm of Folger Nolan Fleming Douglas, Inc., has been named to the governing council of the new Securities Industry Association. SIA represents 850 firms in the U.S. and Canada. It was created through a merger of the Association of Stock Exchange Firms and the Investment Bankers Association of America. Douglas had been active in both predecessor organizations.



Douglas

Merrick Named V.P.



Merrick

Hubert R. Merrick has been named vice president of W. B. Fitzgerald Mortgage Co. Merrick joined Fitzgerald Mortgage in 1969 and during the last three years he has been an appraiser and a loan officer. Before joining the company, he was an automation training supervisor for the U.S. Post Office. A native of New York, Merrick attended American, Howard and Long Island Universities. He is married and has four children.

Molster Joins Agency Board

William A. Molster Sr., a Washington advertising consultant, has been named to the board of directors of R. Joseph Harrill & Farr, Inc., a Chevy Chase public relations and advertising firm. Molster has headed his own firm, Bill Molster & Associates, since 1965. Before that he was director of marketing at the National Association of Home Builders.



Molster

Golden Becomes Manager



Golden

Neil Golden, assistant store manager of Lansburgh's department store at Tysons Corner Center, has been named to manage the company's new store in Rockville, which opens next spring. Golden, a native of New York, has worked at Lansburgh's since 1969, when the Tysons Corner store opened. Lansburgh's now has three stores operating and will open a fifth in Springfield in 1973.

McCoy Gets New Post

Walter J. McCoy, president of the American Concrete Institute and a former research chief at Lehigh Portland Cement Co., has been appointed director of consulting

1-4-72

Major Oil Field Discovered In Saudi Arabia

NEW YORK (DJ) — The United States consortium producing most of Saudi Arabia's crude oil has made a major new oil discovery.

The Arabian American Oil Co. declined official comment on the find, but didn't challenge reports made about it by Ahmad Zaki Yamani, Saudi oil minister.

The discovery well, No. 1 Mazalij, 93 miles south-southeast of the Saudi capital of Riyadh, flowed an "abund-

ance" of medium quality crude oil from the Arab-D zone of the upper Jurassic formation at a depth of about 5,200 feet, Yamani said.

He asserted that the geologic structure in which the well has discovered oil is 45 miles long and eight miles wide, which could mean a giant new oil field. It is 47 miles west of the southern end of the Ghawar oil field, which is the world's largest with estimated reserves of about 80 billion barrels. Ghawar is 140 miles long and 13 miles wide. Its main production comes from the Arab-D zone.

Yamani declared that the new find "could be another Ghawar."

Aramco is owned 30 percent each by Standard Oil Co. of California, Texaco Inc. and Standard Oil Co. (New Jersey) and 10 percent by Mobile Oil Corp.

The new well is near the southern limits of Aramco's concession area, and the structure extends into an area not yet awarded by the Saudi government. Bids on this area have been made by Mobil, Occidental Petroleum Corp. and a group made up of Sun Oil Co., Cities Service Co. and Japan's state-owned Japan Petroleum Development Co. Reportedly the Saudi government may take a 50 percent share of any production from the new area.

Drilling on the well is continuing and it has also encountered oil in the deeper Hanifa zone of the upper Jurassic. It will be drilled deeper into the Fadhilli and Permian Khuff zones. The Khurais field, 41 miles to the north, has production in the Arab-D, Hanifa and Fadhilli zones. It also is a major oil field.

The estimates of reserves in the Ghawar field, and the indicated seismic data on the new Mazalij structure are those of the Saudi government. Aramco's official reserve figures are somewhat lower than those of the government, but are still very large.

Federal Graphics In Its 25th Year

Federal Graphics, Inc., a DuPont Circle commercial art firm, marks its 25th anniversary this year.

Founded by Samuel Surovell and James F. O'Brien, the firm specializes in statistical charts, maps and diagrams.

The firm also designed a stamp for the Post Office celebrating the first commercial air service over the North Pole during the International Geophysical Year.

Treasury Bill Yields Up Slightly in Week

Associated Press

Average interest rates on the government's weekly borrowings rose slightly yesterday, the Treasury Department said.

The average interest rate on \$2.3 billion of 91-day treasury bills was 3.735 percent, up from last week's 3.731 percent.

On \$1.6 billion of 182-day bills, the average interest rate was 4.043 percent, up from last week's 3.952 percent.

Both rates were the highest since Dec. 17, when the three-month bills brought investors 4.023 percent and the six-month bills, 4.263 percent.

Pentagon Answers Power-Gap Claim

By ORR KELLY
Star Staff Writer

The Nixon Administration is trying to head off a "missile gap" controversy of the kind that helped to elect John F. Kennedy to the presidency in 1960.

In an 8½-page letter made public yesterday, the Pentagon responded in unprecedented detail to a circular being widely distributed by the American Security Council charging that the Soviet Union has overtaken the United States as the world's first military power and that the administration has failed to alert the American people to the rapid growth of Soviet strategic forces.

The American Security Council is a private organization which describes itself as specializing in education and research on national security affairs.

The administration is concerned about Soviet strength, the Pentagon letter responded, and has made the facts available to the public, but "today, we are second to no one with respect to over-all military power."

Written by Baroody

The letter was written for Defense Secretary Melvin R. Laird by his assistant, William J. Baroody Jr. A decade ago, when Laird was a Wisconsin congressman and Baroody was his assistant, Baroody helped Laird write a book making charges much like those contained in the current American Security Council circular.

The circular—"The Shifting Balance of Military Power"—is part of the organization's "Operation Alert," which is designed to warn the nation of a rapid growth in Soviet strength.

Heading Operation Alert are Gen. Earl G. Wheeler, former chairman of the Joint Chiefs of Staff; Gen. Lyman G. Lemnitzer, former commander of NATO forces in Europe, and Ambassadors Elbridge Durbrow and Loy W. Henderson.

The organization plans a series of television programs, beginning next month, based on a supplemental statement warning of the Soviet military buildup written by 7 of the 16 members of a blue ribbon panel that studied the Defense Department for the Nixon administration.

Inquiries From Congress

Baroody's letter was written in response to inquiries from members of Congress about the warnings from the Security Council, according to Pentagon press spokesman Jerry W. Friedheim.

In effect, Baroody argues that the Nixon administration has not permitted the Soviet Union to forge ahead into a position of strategic superiority but that cuts imposed by Congress on the "bare bones, rock bottom" Defense budget proposed by the administration, have "impacted directly on our future capabilities."

Even so, Baroody said, "We are confident that the Soviet Union does not have an effective 'first strike' nuclear capability against our strategic forces today.

"But we must insure against this possibility developing—or even the prospect of it developing—in the future," he continued.

This is the reason for programs such as a new submarine and a new bomber, contained in the 1972 budget and "the programs we will be proposing early next year," he said.

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Begum Mujibur Rahman kisses her son Russel, 7, after hearing that her husband, Sheik Mujibur Rahman will be released from Pakistan to return to Dacca. (Story on Page A-5.)

4 Copters Lost In Viet Clash

SAIGON (AP) — The U.S. Command today announced the loss of another fighter-bomber over northern Laos, and four American helicopters were shot down during an attack on a U.S. patrol northeast of Saigon.

The command said an Air Force F4 Phantom was lost Friday due to unknown causes and the two crewmen were listed as missing. It was the 11th U.S. plane lost over Laos and North Vietnam since Dec. 10; 15 of the crewmen are listed as missing and six were rescued.

A spokesman, Capt. James D'Entremont, said his reports did not indicate what mission the F4 was on, but presumably it was either supporting Laotian ground forces or was taking part in the massive air campaign against North Vietnam's Ho Chi Minh supply trail network.

Announcement of the loss was delayed while search op-

Laos Base Shelled, CIA Forced Out. Page A-3

erations were under way, D'Entremont said.

The four helicopters were shot down yesterday when they came to the aid of a 25-man patrol that was attacked near dusk in the jungle 40 miles northeast of Saigon. The command said one GI was killed and 13 were wounded in the attack. It was the biggest American ground

See INDOCHINA, Page A-4



—Associated Press

IN ROME.

8 Juveniles Arrested as Burglars

By SHERIDAN FAHNESTOCK
Star Staff Writer

A ring of juvenile burglars who broke into homes in the Fairfax County subdivisions where they live, stealing money and firearms while the residents slept, has been broken up with the arrest of eight youths, according to county police.

A police spokesman said that 40 homes in the Brookfield, Country Club Manor and Chalet Woods subdivisions were pointed out by the juveniles as having been burglarized by them between October and December last year.

It was understood that the eight attended intermediate school together. A school official said the area is served by Herndon Intermediate School.

The police spokesman said the youths, aged 13 to 17, would slip out of their homes after midnight and go in a group of two, three or four, find a likely residence and get in by breaking a rear window-pane or by slipping locks on doors with a piece of plastic. Once inside, the youths would even take money from trousers left on a bedroom chair as the occupants of the home slept.

The spokesman said such burglaries, with the residents at home asleep, were rare in the county.

Racing Results

Bowie

6th—\$7,000; 4YO up; alwc.; 6 f.

Tsunami (McIvor)	5.60	4.00	2.60
Frozen Delight (Turcotte)		4.00	2.80
Daids Twist (Black)			2.20

Off, 3:21. Time 1:12 2-5.

Solid Hit, Find The Doctor, Intercede also ran.

Kelly's Bowie Handicaps
and Earlier Results, Page C-6

PAKISTAN: ALL IN THE FAMILY

No one is certain of their exact number or, even, of how much wealth they control. But of their existence as a privileged economic and power elite there can be no doubt. For these are what the press has come to call the "22 families" of Pakistan. And now they have suddenly come to the attention of the world because Pakistan's new President, Zulfikar Ali Bhutto, has set out to bring them under control for the first time in his nation's 24-year history.

It will be a far from simple task. Since partition in 1947, the 22 families have built up vast networks of hugely profitable companies employing millions of people and affecting every aspect of Pakistani production from steel to lipstick. Before last month's war with India, the 22 families owned or controlled 66 per cent of Pakistan's industry, some 80 per cent of its banking and insurance assets and vast tracts of the country's best farmland. And while some of the families stand to lose heavily now that East Pakistan has been detached from the West, most of them are said to have maintained their assets largely intact.

KNOW-HOW IN A VACUUM

Their acquisition of enormous wealth is a classic story of unchecked capitalism operating in a developing nation. "Most of the families came from Calcutta and Bombay in 1947," said an American official, "and they brought entrepreneurial know-how into a power vacuum." Once in Pakistan, they set up textile mills and export-import firms, and, with development funds supplied by friendly governments in the 1950s and '60s, they moved into a whole range of industries. Shrewd, aggressive men, they expanded into distribution, banking and insurance, always staffing key jobs with relatives, close friends or, on occasion, with the husband of a favored mistress. Like the military men who ran the government, they treated East Pakistan as a colony—a place to buy raw materials cheap and sell industrial products dear. The profits, of course, flowed back to West Pakistan. "These people," commented a Pakistani economist, "owned the whole damn thing."

Among these super-rich, two families contend for the No. 1 spot in the financial pecking order. The Adamjees, with interests in banking, insurance, jute, cotton, sugar and paper mills, are conservatively estimated to have assets totaling some \$80 million. And the Dawoods, with jute, textiles, petroleum distribution, rayon, fertilizer and paper, are not far behind. Then come such families as the Saigols and

Valikas, the Habibs and Hyesons, the Fancys, Ghandaras and the rest. Not even the Bhutto government knows just how much the 22 families are really worth. They have all built up huge foreign holdings in New York, London and Swiss banks, and one Western source estimates that, collectively, the 22 families have as much as half a billion dollars in foreign bank accounts—more than twice Pakistan's foreign currency reserves.

BOOKS BY THE YARD

Despite their tremendous wealth, the Pakistani tycoons for the most part live an unostentatious life. True, some sons and daughters indulge in splashy sports cars and a bit of Karachi night life. And the Adamjees have been known to book an entire floor at the plush Hotel Pierre when they stay in New York. But possibly to avoid attention, most maintain a semblance of frugality. Their houses in Karachi are large, but many lack the antiques, paintings or other status symbols of the fabulously rich. "That's only because they have no cultural background," explains one Pakistani contemptuously. "Some are the types who are apt to order books by the yard—not subject matter."

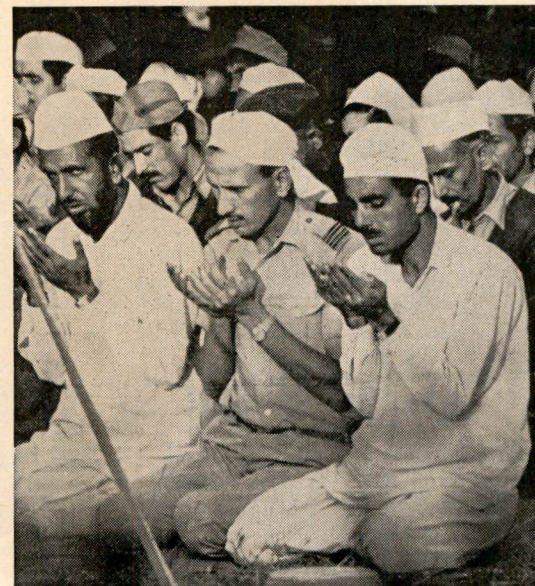
Such criticism, however, fails to disturb the leaders of the 22 families, who have until now been secure in the knowledge that they run things in Pakistan. "These people," says one Pakistani, "have had practically anyone they need in the government in their debt." But under the newly installed Bhutto government, the climate for the first families is no longer quite so hospitable. In one of his first acts, Bhutto ordered the passports of the members of the 22 families impounded—ostensibly to prevent a flight of capital. Moreover, Bhutto warned last week that he would imprison those families that did not repatriate the capital in their foreign troves.

How successful Bhutto will be in chopping Pakistan's economic nabobs down to size is difficult to predict. The manifesto of his Pakistani People's Party calls for the nationalization of heavy industries, banks and insurance companies. And Bhutto is certainly aware that if significant changes are to be made, he must break the power of the 22 families. The likelihood, however, is that he will tread cautiously. "If Bhutto confronted them," comments an American scholar, "he would win popularity with the people. But he knows that a confrontation now with the 22 families might tear the nation apart. He will bide his time, but he will not forget his objective."

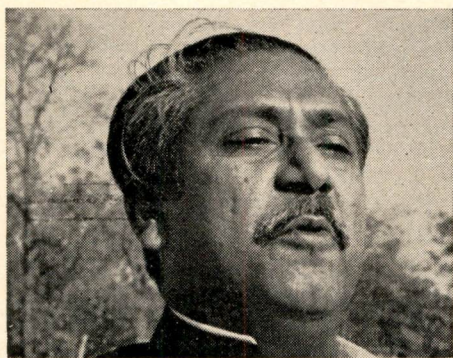
dia now intending to keep its armed forces in Bangladesh for several more months, it was clear that New Delhi planned to extract the maximum concessions from Islamabad. Ironically, however, Bhutto was in no hurry to see the Indian Army leave Bangladesh. For the Indian troops have prevented an otherwise certain orgy of revenge by the Mukti Bahini guerrillas against Bangladesh's 2 million Biharis—non-Bengali Moslems who sided during the war with the West Pakistani Army.

Hope: Despite the severe tone that India has adopted since the end of the war, Bhutto is trying a policy of gentle response. He called upon Pakistan's press to ignore critical reports from the media of other nations. "I would prefer," he declared, "to see no references critical of the great powers or any of the other countries—and that includes India." By avoiding useless rhetorical battles, Bhutto hoped to project the image of a newly reasonable Pakistan, and thereby attract the help of the major powers in rebuilding his country and in supporting his position during any future negotiations with India. But although Bhutto indicated his desire to consult with leaders in both Moscow and Peking, for all practical purposes he will have to rely on the U.S. to carry the brunt of the foreign-aid burden. Noting that China did nothing to prevent the dismemberment of Pakistan and that Russia will hardly undercut its India ally, one State Department official maintained, "Bhutto knows damn well that Washington is Pakistan's only hope for remaining in the twentieth century."

That may be true, but in a more immediate sense it is Bhutto himself who is Pakistan's major hope. For while he has earned a reputation as a histrionic leftist with a virulent anti-American stance, his critics may yet find themselves acknowledging that Bhutto is primarily a dedicated nationalist. As a re-



UPI
War's pawns: Pakistani POW's pray



Milan J. Kubic—Newsweek

Mujib: The central figure

He marched into the teeming crowds in Rawalpindi's dusty Raja Bazaar, an ordinary-looking figure clad in baggy trousers and a homespun cotton shirt. But far from being just another shopper in search of a bargain, the man mingling with the marketplace throng last week was Pakistan's new President, Zulfikar Ali Bhutto. It was a new image for Bhutto, a man previously characterized by his pinstriped suits and his habitual haughtiness. And in his cultivation of popular goodwill, Bhutto seemed intent not only on demonstrating his commitment to improving the lot of the average Pakistani but on countering the world's image of him as a wealthy dilettante. In fact, since taking office two weeks ago, Bhutto has taken vigorous steps to resurrect his country in the wake of its disastrous war with India. Conceded an American diplomat: "It just might be that Bhutto is what Pakistan needs now—not an idealist, but a pragmatist."

Indeed, pragmatism—coupled with some of the showmanship for which he has long been known—stood as the hallmark of Bhutto's first fortnight as President. And nowhere were those two traits more evident than in his handling of the case of Sheikh Mujibur Rahman, the long-imprisoned Bengali leader whose fate will be a key issue in any forthcoming Indo-Pakistani peace negotiations. Arriving at a reception for foreign diplomats, Bhutto dramatically announced that he had come directly from his first meeting with Mujib. "It was not an easy step to take," the President began, "but it was necessary to take it. I wish it had been taken a long time ago." And, in an attempt to imply that the meeting had been successful, Bhutto added, "He did not kick me in the teeth, nor did I find it necessary to pull a gun."

Even though Bhutto refused to discuss the substance of his discussions with Mujib, it was apparent that the Pakistani President was searching for some formula that would reestablish the links between Pakistan and its former eastern zone, now the independent

state of Bangladesh. But even in the unlikely case that Mujib wished to persuade the fledgling Bengali nation to rejoin Pakistan, it was virtually certain that his pleas would be ignored. For Bangladesh is as warm with nationalistic zealots who would fight to the death to prevent such a reunion, and even the country's moderate Acting President, Syed Nazrul Islam, vowed last week that Bhutto's hope of restoring Pakistani rule "is a dream that will never be realized." In short, as one U.S. official noted, "Bhutto's greatest mistake would be to think he could get much of a price for Mujib. The best he can squeeze out of this will be a bit of face saving."

Pacify: There was good reason to believe that the politically astute Bhutto knew the limits of his bargaining power and that his public statements about "one Pakistan" were designed primarily to soothe his countrymen, who are still bristling at their humiliation by India and the loss of Bangladesh. Since the end of the war, Bhutto has been under mounting pressure to bring former President Mohammed Yahya Khan and a number of purged military leaders to trial on charges of treason. And while Bhutto moved to quiet the cries for revenge by appointing a commission to investigate the causes of Pakistan's defeat, he was careful not to take any steps that might



AP

Bhutto: The major hope

aggravate the national mood of anger. Instead, he attempted to pacify the Pakistanis with a series of promises and grand gestures. He pledged comprehensive land reform and hinted that key industries might be nationalized. And as if to emphasize that he was seeking neither personal fame nor gain, he banned pictures of himself in public buildings and announced that he would serve without pay.

For all Bhutto's vows of sweeping change, the path toward genuine reform in Pakistan was studded with major barriers. To begin with, even though the military is currently in disgrace, Bhutto cannot rule out the possibility of a future military coup d'état. "The military has retired to lick its wounds," one U.S. official commented, "but it is far from being counted out in Pakistani politics." Furthermore, while Pakistan's economic elite—the so-called "22 families" (box, page 26) seems reconciled to working with the socialist ministers in the new Bhutto regime, any extreme move to take over their assets might wreck the nation's economy and lead to mass unemployment. "The condition of Pakistan is going to be too precarious for a long time to permit much experimentation with the system," said an American diplomat. "If Bhutto tries to go too far, the Establishment will chop him off at the knees and the military will take over again."

Bhutto is hemmed in not only by the possibility of a domestic backlash but by continuing pressures from India and Bangladesh, as well. Even while India began last week to repatriate some of the 100,000 Pakistani prisoners of war, New Delhi indicated that the fate of the remaining POW's could hinge on the release of Mujib and a Pakistani agreement to peace terms. Moreover, there was increasing insistence in Bangladesh that ranking Pakistani military and civilian leaders guilty of "heinous crimes" be tried as war criminals, and Indian Foreign Ministry officials said any such formal requests would be carefully considered. With In-



UPI

Funeral of Bihari child: The Bengalis took revenge

The Oil Industry

Moderator

Richard A. Holman, Editor and Publisher

Panelists

George E. Austin, Morgan Trust Co. of N.Y.

Harry E. Bower, Delafield Childs, Inc.

Eliot S. Knight, Smith, Barney & Co., Inc.

Karl W. Schlubach, Hamerslag, Borg & Co.

Joseph Tovey, Roth, Gerard & Co.

Peter R. Vig, Oppenheimer & Co.

Mr. Holman: Eliot, do you anticipate any major changes in the broad petroleum field over the next six months to a year?

Mr. Knight: Major changes in terms of the way the industry is now structured, or the way investors will appraise the stocks?

Mr. Holman: In terms of earnings — or is there anything major coming up that you can see that might swing one way or the other?

Mr. Knight: The major uncertainty, of course, is the question of participation on the international scene, which the organization of petroleum exporting countries is already starting to raise with the individual companies, or has indicated that it will start to raise.

But, yes, I think that is going to cause some definite changes.

Austin: "... I think the role of the Governments from a price and a taxation standpoint is the most significant thing in the industry."

Mr. Holman: Do you see it having an impact within six months to a year? Do you think there would be enough time out by then?

Mr. Knight: I think within a year, yes, there will be enough finalized then to see how the fabric of participation will develop.

Mr. Holman: George, do you see anything on the horizon, whether the participation factor or anything else, that is cause for major concern or major jubilation?

Mr. Austin: I think Eliot mentioned the most significant concern, the participation issue. The increasing role of Government in all aspects of the industry, I think, is the thing we should discuss.

Mr. Holman: By "Government," you mean not necessarily the United States Government but —

Mr. Austin: Well, throughout the world. In this country the Government controls the price of natural gas for one and monitors the price of all petroleum products pretty closely.

In the foreign area, they have a great deal of control over price. Certainly the role of Government on taxation matters in the producing countries is highly significant.

Mr. Holman: Is that the fact that it was settled by agreement some time back?

Mr. Austin: No, I think it's more historic than that recent agreement. If you look back 10 years ago, the Government got together and formed OPEC, which Eliot referred to. At that time the profits on the oil production were being shared roughly 50 to 50, as they had been since clear back to the 1940s. But the realized prices have declined considerably. But in the past 10 years the actual split now is more like 70 to 30 in favor of the host Government, because the taxes continue to be based on a posted price, which 10 or 15 years ago was real, but today is artificial. The latest agreement signed early this year in Teheran and Tripoli increased the profit split to the 70-30 level.

Until those two agreements, it was maybe 65-35, but even at that level it says that the Governments took two-thirds of the profits on the oil production, which certainly is considerably different than it is in this country. Again I think the role of the Governments from a price and a taxation standpoint is the most significant thing in the industry.

Mr. Holman: Karl.

Mr. Schlubach: Well, I can think of several other factors offhand that I think might come into play in the next six months. I think the trend of the business cycle, or economic conditions in this country and abroad, especially abroad, give us concern and could have an effect on the inventories and profit margins of the oil companies.

I think tanker rates loom very importantly. They also have shown signs of weakness in the last few months and could be an important determinant of oil company earnings.

And I hope that later on we will get back to this question of participation of the producing countries in the earnings, because I think it would be interesting to develop that question and see what we all think the impact might be exactly, and how it might shape up, because it looms so large.

Schlubach: "I think the trend of the business cycle, or economic conditions in this country and abroad, especially abroad, give us concern and could have an effect on the inventories and profit margins of the oil companies."

Mr. Holman: We will grasp that thistle a little later. Joseph, what about you?

Mr. Tovey: The major determinant of structural change in six to 12 months is already in action, the determination of both the consuming and the producing countries to exercise more control over the major international oil companies, and increased sophistication in pursuing this goal.

In many ways, the multi-national international oil company is under increased attack by nationalists, each of whom wants to make it more directly responsive to his own nation's goals. I think we are going to be see-

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IN THIS ISSUE

SPEECHES	
BRISTOL-MYERS CO.	
Boston Security Analysts Society	26,660
McGRAW-EDISON CO.	
Houston Society of Financial Analysts	26,661
BLACK & DECKER MANUFACTURING CO.	
Cleveland Society of Security Analysts	26,662
CAPITAL MORTGAGE INVESTMENTS	
Washington Society of Investment Analysts	26,663
FLEMING CO.	
New York Society of Security Analysts	26,664
PHILIPS INDUSTRIES	
Des Moines Society of Financial Analysts	26,665
PUREX CORP., LTD.	
Security Analysts of San Francisco	26,666
INVESTMENT OUTLOOK FOR 1972	
Dallas Association of Investment Analysts	26,667
LEASWAY TRANSPORTATION CORP.	
Investment Analysts Society of Chicago	26,668
NU-WEST DEVELOPMENT CORP., LTD.	
Vancouver Society of Financial Analysts	26,669
ANGELICA CORP.	
St. Louis Society of Financial Analysts	26,670
STERLING PRECISION CORP.	
New York Society of Security Analysts	26,671
McCOMB & CO.	
Baltimore Security Analysts Society	26,672
UNITOG CO.	
Kansas City Society of Financial Analysts	26,673
COLONIAL STORES, INC.	
Atlanta Society of Financial Analysts	26,674
TRANSNORTHWESTERN GAS PIPE LINE CORP.	
New York Society of Security Analysts	26,675
RATON CORP.	
Nashville Society of Financial Analysts	26,676
INDUSTRY SURVEYS	
LIFE INSURANCE	26,677
PAPER	26,678
DRUG	26,688
ARCO, INC.	
San Francisco and Los Angeles Security Analysts	26,104
ARWAY ENTERPRISES, INC.	
(Common Stock - Initial Offering)	26,105
ALLIED SECURITY, INC.	
St. Louis - Atlantic City	26,090
AMERICAN AIRLINES	
See TECHNICAL, Baché	26,071
AMERICAN BUILDING	
See TECHNICAL, Baché	26,071
AMERICAN INDUSTRIES	
Merrill Lynch, Pierce	26,083
MENARD & HOME PRODUCTS CORP.	
See DRUG, Goldman, Sachs	26,090
See DRUG, Goldman, Sachs	26,090
(Common Stock - Initial Offering)	26,091
ATLANTIC AIRLINES, INC.	
See COMMODITY, F. J. McHugh	26,096
See COMMODITY, F. J. McHugh	26,096
ANGELICA CORP.	
See COMMODITY, F. J. McHugh	26,096
See COMMODITY, F. J. McHugh	26,096
See COMMODITY, F. J. McHugh	26,096
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See COMMODITY, F. J. McHugh	26,096
See COMMODITY, F. J. McHugh	26,096
See COMMODITY, F. J. McHugh	26,096
See COMMODITY	

BLACK & DECKER MANUFACTURING CO.	26,680
Presentation by Chairman, President & CEO and Others;	
Cleveland Society of Security Analysts	
BONDS	26,681
DOSTON & MAINE INDUSTRIES INC.	26,682
See RAILROAD.	
Wicks-Hemphill, Noyes	26,683
BRAD RAGAN, INC.	26,684
See TECHNICAL, Hornblower & Weeks-Hemphill, Noyes	
BRANIFF AIRWAYS	26,685
See OPINION.	
Black, Stein Kimball	26,686
See TECHNICAL, Bach	26,687
BRISTOL-MYERS CO.	26,688
Report by Chairman of the Board;	
Roston Security Analysts Society	
BROCKWAY GLASS CO.	26,689
See INVESTMENT.	
Prescott, Merrill, Turben	26,690
BUCCYRUS-ERIE CO.	26,691
See RESEARCH.	
Robert W. Baird	26,692
BURLINGTON NORTHERN INC.	26,693
See RAILROAD.	
Twist Roundtable	26,694
C.I. CONVERTIBLE FUND, INC.	26,695
(Common Stock - Initial Offering)	
Thompson & McKinnon Auchincloss Inc.	26,696
CPC INTERNATIONAL	26,697
Weekly Digest, Watson	26,698
C. W. TRANSPORT, INC.	26,699
See UP-DATE.	
Piper, Jaffray & Hopwood	26,700
Washington Society of Investment Analysts	26,701
Speech by President:	
CANADIAN PACIFIC LTD.	26,702
See RAILROAD.	
Twist Roundtable	26,703
CAPITAL MORTGAGE INVESTMENTS	26,704
See RAILROAD.	
Twist Roundtable	26,705
CENTRAL R.R. CO. OF NEW JERSEY	26,706
See RAILROAD.	
Twist Roundtable	26,707
CERTAIN-TEED PRODUCTS CORP.	26,708
See TECHNICAL, Hornblower & Weeks-Hemphill, Noyes	
CHARLES BANKSHARES CORP.	26,709
Allen G. Ewing	26,710
CHESAPEAKE & OHIO RY. CO.	26,711
See RAILROAD.	
Twist Roundtable	26,712
CHICAGO ROCK ISLAND & PACIFIC R.R. CO.	26,713
See RAILROAD.	
Twist Roundtable	26,714
CHRYSLER CORP.	26,715
See TECHNICAL.	
Edward A. Viner	26,716
CLEVELAND REALTY INVESTORS	26,717
See INVESTMENT.	
Prescott, Merrill, Turben	26,718
COAST CATALAN CORP.	26,719
(Common Stock - Initial Offering)	
W. E. Hutton & Co.	26,720
COFFEE-MAT	26,721
Cohen, Simonson & Rea	26,722
COPIER-HINDS CO.	26,723
See PROGRESS, Hornblower & Weeks-Hemphill, Noyes	
DELTA CORP. OF AMERICA	26,724
See TECHNICAL, Hornblower & Weeks-Hemphill, Noyes	
DENTAL-EX, INC.	26,725
See TECHNICAL, Hornblower & Weeks-Hemphill, Noyes	
DEVELOPMENT INTERNATIONAL CORP.	26,726
Varnado, Chisholm, Skinner	26,727
DUNKENNY, INC.	26,728
C. G. Saxton	26,729
DRUG INDUSTRY	26,730
See RAILROAD.	
RATON CORP.	26,731
Nashville Society of Financial Analysts	
EQUITY FUNDING CORP.	26,732
OF AMERICA	
See ACTION, Steiner, Rouse	26,733
FNB DEVELOPMENT CORP.	26,734
(Common Stock with Warrants - Initial Offering)	
No Underwriter	26,735
FABRI-CENTERS OF AMERICA	26,736
Murch	26,737

FAIRCHILD CAMERA & INSTRUMENT CORP.	26,738
See TECHNICAL, Bach	
CEO and Others;	
Volcan	26,739
See ACTION, Steiner, Rouse	26,740
FALCONBRIDGE NICKEL MINES LTD.	26,741
Hector M. Chisholm	26,742
FALCON-PAK, INC.	26,743
(Common Stock - Initial Offering)	
First Harvard Co.	26,744
FEDERATED DEPARTMENT STORES	26,745
See VIEW, Burnham	
FILITE DYNAMICS INTERNATIONAL, INC.	26,746
See RESEARCH.	
Cohn, Simonson & Rea	26,747
FISHER SCIENTIFIC CO.	26,748
Ringer, Deane & Scribner	26,749
FLEMING CO.	26,750
Presentations by CEO and Others;	
New York Society of Security Analysts	26,751
FLEISHER EAST RY. CO.	26,752
See RAILROAD.	
Twist Roundtable	26,753
FOXCO INDUSTRIES	26,754
(Common Stock - Initial Offering)	
See RAILROAD.	
Twist Roundtable	26,755
FRANKLIN LIFE INSURANCE CO.	26,756
See LIFE.	
Wicks-Hemphill, Noyes	26,757
GAFF CORP.	26,758
See TECHNICAL, Hornblower & Weeks-Hemphill, Noyes	
GRI CORP.	26,759
Investment Corp. of Virginia	26,760
GARLE INDUSTRIES, INC.	26,761
Robinson-Humphrey	26,762
GARAN, INC.	26,763
See TECHNICAL, Hornblower & Weeks-Hemphill, Noyes	
GATEWAY TRANSPORTATION	26,764
See UP-DATE.	
Piper, Jaffray & Hopwood	26,765
GAY GIBSON, INC.	26,766
See DIGEST, Stern Brothers	
GENERAL MOTORS	26,767
See OPINION.	
Black, Stein Kimball	26,768
GEORGIA INTERNATIONAL CORP.	26,769
See RAILROAD.	
Twist Roundtable	26,770
GERBER PRODUCTS	26,771
See MONDAY, Bach	26,772
GILBERT-HARRISON, INC.	26,773
See DIGEST, Stern Brothers	
GULF MOBILE & OHIO R.R. CO.	26,774
See RAILROAD.	
Twist Roundtable	26,775
GUY'S BROS. INC.	26,776
See DIGEST, Stern Brothers	
HERS APPAREL INDUSTRIES, INC.	26,777
First Midwest Investment	26,778
HOSPITAL CORP. OF AMERICA	26,779
See TECHNICAL, Bach	26,780
HOUSTON OIL & MINERALS CORP.	26,781
Hopson, Watson	26,782
ISL INDUSTRIES	26,783
See DIGEST, Stern Brothers	
ILLINOIS CENTRAL INDUSTRIES INC.	26,784
See RAILROAD.	
Twist Roundtable	26,785
INGRESS MANUFACTURING CO.	26,786
(Common Stock - Initial Offering)	
City Securities	26,787
INTERNATIONAL HYDROGENICS CORP.	26,788
(Common Stock - Initial Offering)	
Kerba Securities Co., Inc.	26,789
INVESTMENT OUTLOOK FOR 1972	26,790
Presentation by Vice President & Portfolio Manager,	
Investors Diversified Services, Inc.	
Dallas Association of Investment Analysts	26,791
INVESTORS DIVERSIFIED SERVICES, INC.	26,792
Presentation by Vice President & Portfolio Manager;	
Dallas Association of Investment Analysts	26,793
JEFFERSON-PILOT CORP.	26,794
Johnson & Johnson	26,795
See DRUG, Goldman, Sachs	26,796
KINGSDORF CORP.	26,797
Stifel, Nicolaus	26,798
See RAILROAD.	
Twist Roundtable	26,799
LIBERTY NATIONAL LIFE INSURANCE CO.	26,800
See LIFE, Watson	26,801
LIFE INSURANCE INDUSTRY	26,802
See DE GOUMOIS.	
Cohen, Simonson & Rea	26,803
LONG ISLAND LIGHTING	26,804
See MONDAY, Bach	26,805
LOUISIANA GENERAL SERVICE INC.	26,806
Howard, Weil	26,807
LOUISVILLE & NASHVILLE R.R. CO.	26,808
See RAILROAD.	
Twist Roundtable	26,809
McCOMB & CO.	26,810
Speech by President: Baltimore Security Analysts Society	26,811
McGraw-Edison Co.	26,812
Presentations by Chairman & CEO and Vice President & Treasurer;	
Houston Society of Financial Analysts	26,813
MARATHON MFG. CO.	26,814
See TECHNICAL, Hornblower & Weeks-Hemphill, Noyes	
MARLE CO.	26,815
See DIGEST, Stern Brothers	26,816

MEMOREX CORP.	26,817
See ACTION, Steiner, Rouse	
MERCK & CO.	26,818
See DRUG, Goldman, Sachs	26,819
MILES LABORATORIES, INC.	26,820
See DRUG, Goldman, Sachs	26,821
MISSOURI PACIFIC R.R. CO.	26,822
See RAILROAD.	
Twist Roundtable	26,823
MODERN MERCHANDISING, INC.	26,824
(Common Stock - Initial Offering)	
Delin, Goldman & Quail	26,825
NLT CORP.	26,826
See LIFE, Watson	26,827
NATIONAL PARAGON CORP.	26,828
See TECHNICAL, Hornblower & Weeks-Hemphill, Noyes	
NETCO LTD.	26,829
See RAILROAD.	
Twist Roundtable	26,830
NEW PROCESS CO.	26,831
See TECHNICAL, Hornblower & Weeks-Hemphill, Noyes	
NEW YORK NEW HAVEN & HARTFORD RAILROAD CO.	26,832
See RAILROAD.	
Twist Roundtable	26,833
NORFOLK & WESTERN RAILWAY CO.	26,834
See RAILROAD.	
Twist Roundtable	26,835
NORTHWEST AIRLINES	26,836
See TECHNICAL, Bach	26,837
NORTHWEST INDUSTRIES INC.	26,838
See RAILROAD.	
Twist Roundtable	26,839
NORTHWEST DEVELOPMENT CORP. LTD.	26,840
Address by President:	
Vancouver Society of Financial Analysts	26,841
PABST BREWING CO.	26,842
See RESEARCH.	
Robert W. Baird	26,843
PAN AMERICAN WORLD AIRWAYS, INC.	26,844
See ACTION, Steiner, Rouse	26,845
PAPER INDUSTRIES	26,846
New York Securities	26,847
C. J. PATTERSON CO.	26,848
See DIGEST, Stern Brothers	
PENN CENTRAL CO.	26,849
See RAILROAD.	
Twist Roundtable	26,850
PEOPLES CORP.	26,851
(Common Stock - Initial Offering)	
No Underwriter	26,852
PELLETIER, INC.	26,853
See DRUG, Goldman, Sachs	26,854
PHILIP INDUSTRIES	26,855
See TECHNICAL, Hornblower & Weeks-Hemphill, Noyes	
PHILIPPIAN CORP.	26,856
See RAILROAD.	
Twist Roundtable	26,857
PHYSICIAN'S EQUITY SERVICES, INC.	26,858
(Common Stock - Initial Offering)	
No Underwriter	26,859
C. A. PITTS ENGINEERING CONSTRUCTION, LTD.	26,860
See COMMENT, Bell, Gouinlock	
PLAYBOY ENTERPRISES, INC.	26,861
(Common Stock - Initial Offering)	
Loeb, Rhodes & Co.	26,862
PUREX CORP., LTD.	26,863
Address by Chairman of the Board & President;	
Security Analysts of San Francisco	26,864
RCA CORP.	26,865
See VIEW, Burnham	26,866
RAILROAD INDUSTRY	26,867
Twist Roundtable	26,868
RAND CAPITAL CORP.	26,869
Offering Withdrawn	26,870
S.D. Lunt & Co.	26,871
RAID CO.	26,872
See RAILROAD.	
Twist Roundtable	26,873
REDKEN LABORATORIES, INC.	26,874
(Common Stock - Initial Offering)	
Mitchell, Jones & Templeton	26,875
REX CHAINBELT, INC.	26,876
See RESEARCH.	
Robert W. Baird	26,877
RICHARDSON-MERRELL, INC.	26,878
See DRUG, Goldman, Sachs	26,879
S. RIEKES & SONS	26,880
See DIGEST, Stern Brothers	26,881
RIO GRANDE INDUSTRIES INC.	26,882
See RAILROAD.	
Twist Roundtable	26,883
ROPER-ARCHER, INC.	26,884
Elkins, Morris, Stroud	26,885
ROSSMOOR CORP.	26,886
Bateman, Eichler, Hill Richards	26,887
ROWAN COMPANIES	26,888
See TECHNICAL, Hornblower & Weeks-Hemphill, Noyes	
RUSS TOYS, INC.	26,889
Shields	26,890
ST. LOUIS-SAN FRANCISCO RAILWAY CO.	26,891
See RAILROAD.	
Twist Roundtable	26,892
SANTA FE INDUSTRIES, INC.	26,893
See RAILROAD.	
Twist Roundtable	26,894
SCHERING-PLOUGH CORP.	26,895
See DRUG, Goldman, Sachs	26,896
SCOT LAD FOODS, INC.	26,897
See INVESTMENT.	
Prescott, Merrill, Turben	26,898
SEABOARD COAST LINE INDUSTRIES, INC.	26,899
See RAILROAD.	
Twist Roundtable	26,900
SEABOARD COAST LINE R.R. CO.	26,901
See RAILROAD.	
Twist Roundtable	26,902
G. D. SEARLE & CO.	26,903
See DRUG, Goldman, Sachs	26,904

FEATURES

Technical Corner	26,037
Executive's Corner	26,060
New Issue Corner	26,096
Connoisseur's Column	26,045
Weston Smith Column	26,086
Progress Corner	26,104
Employment	26,088
Books in Brief	26,045
News We Noted	26,103

SMITH KLINE & FRENCH LABORATORIES	26,091
See DRUG, Goldman, Sachs	
SOO LINE R.R. CO.	26,092
See RAILROAD.	
Twist Roundtable	26,093
SOUTHERN PACIFIC CO.	26,094
See RAILROAD.	
Twist Roundtable	26,095
SOUTHERN RAILWAY CO.	26,096
See RAILROAD.	
Twist Roundtable	26,097
SPECTRA-PHYSICS, INC.	26,098
San Francisco Society of Financial Analysts	26,099
STERLING DRUG, INC.	26,100
See DRUG, Goldman, Sachs	
STERLING PRECISION CORP.	26,101
Talk by Chairman,	
New York Society of Security Analysts	26,102
STOCKS	26,103
See TECHNICAL, Reynolds	
Harris, Upham	26,104
See STRATEGY.	
San Francisco Investment	26,105
STEELTEK	26,106
duPont Glare Porzan	26,107
See TECHNICAL, Thomson & McKinnon Auchincloss	26,108
Shields	26,109
SUNBELT CORP.	26,110
See MONDAY, Bach	26,111
SUNSHINE-JR. STORES, INC.	26,112
(Common Stock - Initial Offering)	
A. G. Edwards & Sons	26,113
SUPERMARKETS GENERAL	26,114
See PROGRESS, Hornblower & Weeks-Hemphill, Noyes	26,115
SYNTEX CORP.	26,116
See DRUG, Goldman, Sachs	26,117
TAB PRODUCTS CO.	26,118
Cooperman & Howard	26,119
TAFB BROADCASTING	26,120
W. D. Gradison	26,121
TALLEY INDUSTRIES	26,122
Roberts, Scott	26,123
TECHNICAL OPERATIONS INC.	26,124
See TECHNICAL, Bach	26,125
THIOKOL CHEMICAL CORP.	26,126
See TECHNICAL, Bach	26,127
TOWN & COUNTRY MOBILE HOMES	26,128
See TECHNICAL, Bach	26,129
TRANSNORTHWESTERN GAS PIPE LINE CORP.	26,130
Address by President:	
New York Society of Security Analysts	26,131
UMC INDUSTRIES, INC.	26,132
(Common Stock - Initial Offering)	
Edward A. Viner	26,133
UNIMET CORP.	26,134
(Common Stock - Initial Offering)	
Finks, Zaslav & Co.	26,135
UNION PACIFIC R.R. CO.	26,136
See RAILROAD.	
Twist Roundtable	26,137
UNITED CONSOLIDATED INDUSTRIES, INC.	26,138
Feldman, Sukin, Welch & Winer	26,139
UNITOG CO.	26,140
See DIGEST, Stern Brothers	26,141
Presentation by President:	
Kansas City Society of Financial Analysts	26,142
UNIVERSAL OIL PRODUCTS CO.	26,143
See INVESTMENT.	
Peter P. McDermott	26,144
UPJOHN CO.	26,145
See DRUG, Goldman, Sachs	26,146
VARAC INDUSTRIES, INC.	26,147
(Common Stock - Initial Offering)	
Delphi, Capital Corp.	26,148
VIRGINIA REAL ESTATE INVESTMENT TRUST	26,149
Scott & Stringfellow	26,150
VOLTA SHOE CORP.	26,151
See DIGEST, Stern Brothers	26,152
JIM WALTER	26,153
See DE GOUMOIS.	
Cohen, Simonson & Rea	26,154
WARNER-LAMBERT CO.	26,155
See DRUG, Goldman, Sachs	26,156
WESTVACO CORP.	26,157
See York Securities	26,158
WHITTAKER CABLE CORP.	26,159
See DIGEST, Stern Brothers	26,160
WILVERINE INDUSTRIES	26,161
Wm. C. Roney	26,162
WORTHINGTON INDUSTRIES, INC.	26,163
First Columbus	26,164

RAILROAD INDUSTRY

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See TWST Roundtable — Page 26,046

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ing more of this affecting the oil industry, and not just by the OPEC countries. Increased efforts by Government-owned or supported consuming country oil firms to become more involved in all phases of the oil industry are part of it. But this is a continuation of a trend that, as George noted, has existed for years. In fact, one can trace it in many countries to just after World War I and even before that. So here we see a long-term trend.

Probably at least as important to next year's earnings, we are going to see changes in the demand for and profitability of various products of the oil industry. The oil industry is in many respects a commodity industry, and there are four major commodities whose price is determined in part by the business cycle and in part by politics.

Crude oil prices in the United States are definitely politically determined, and gasoline and other product prices in the U.S. are politically monitored, as George mentioned. Outside the U.S., I think we will see increased monitoring of product prices by the consuming countries.

Schlubach: "I think tanker rates loom very importantly. They also have shown signs of weakness in the last few months and could be an important determinant of oil company earnings."

Mr. Holman: You mentioned four main categories of products. What were the four?

Mr. Tovey: The four commodities are domestic crude, domestic gasoline, the entire slate of foreign products on the revenue side, and tanker rates on the cost side. U.S. crudes prices are not determined directly by U.S. product prices, so each is a separate commodity. Foreign product prices, however, are pretty directly reflected in foreign crude prices so we do not treat foreign crude as a separate commodity. Tanker rates fluctuate widely and the swing in the spot tanker rates, for example, is more typical of a commodity than an ongoing business.

I am assuming an economic upswing in the United States in the last quarter of 1971 and continuing through 1972. Outside the U.S., the assumption is that conditions will not be so buoyant. Based on this, in part, I expect that U.S. gasoline prices will begin a major upswing in nine to 12 months. Tanker rates will probably continue at a relatively low level, barring any major crisis.

I think that, relating to Karl's statement, we will be seeing European and Japanese product prices under a great deal of pressure and volumes not as high as originally anticipated. Furthermore, this may effect the rapidity with which we will see OPEC participation. If there is a weak market for products and a weak market for crude, the ability of the OPEC countries to force a high degree of participation and to radically change the structure of this industry may be slowed down.

Mr. Holman: Peter, what do you see coming up of significance?

Mr. Vig: While I have some apprehension regarding Government intervention, my prime concern is European product prices. Product prices and demand in Europe are more closely aligned to the general level of economic activity than in the U.S., and there may well be some problems in terms of volume and prices looking to 1972.

On a 12 to 24 months basis, we are a little more optimistic about domestic product prices. During the period, 1971 to 1973, we are adding on average about 285,000 barrels a day to our refining capacity, and unless we start some new grass roots plants in the near future,



GEORGE E. AUSTIN

GEORGE E. AUSTIN, an assistant vice president of the Morgan Guaranty Trust Company of New York, was born in Indianapolis, Indiana in 1941. He graduated with a B.S. in Mechanical Engineering from Purdue University and with an MBA in Finance from Indiana University; he later studied part-time for a Ph.D. in International Business at New York University. He worked with the Shell Oil Company for five years in a variety of technical, operating, and financial assignments. He joined Morgan Guaranty in 1967 and has been in securities research since that time. Mr. Austin is a member of the NYSSA and is Chairman of the Program Committee of the Oil Analysts Group of New York.

there is not much in terms of new capacity coming on for 1974.

As we work off some of this excess capacity, and also the fact that we will have more products in the hands of majors rather than independents, one can work up a thesis for better product prices in 1972 or at least 1973 in the U.S.

Also, within the next year we should know the results of major exploration plays that will impact certain stocks. I am talking about the North Sea, and in Canada — Mackenzie Delta, the Arctic islands, and also offshore the East Coast.

Mr. Holman: Harry, what, if any, major changes, either positive or negative, do you see occurring in the oil industry or petroleum industry over the next six months to a year, the kind of things you have to watch?

Tovey: "... we are going to see changes in the demand for and profitability of various products of the oil industry. The oil industry is in many respects a commodity industry."

Mr. Bower: Unfortunately, I haven't had the opportunity to hear what my good colleague up there, Mr. Schlubach says, but I know from experience some of his thinking, and I know that over the last year or more Karl has said one of the most difficult things that the industry is fac-

ing currently, and perhaps longer term, is Governments here and abroad, which I think is certainly true.

One thing I would like to point out that I think is very meaningful. Many years ago when I started in this business, every time you would see a report written by anyone on an oil company, on the first page of that report you would always see a qualification, assuming normal weather.

I don't believe, in my 20 years of observing this industry, I have ever seen a time when it would be more fitting to say assuming normal weather, because both here and all around the world, I think every terminal, every tank, every teacup and saucer, is filled with oil.

And this is the most difficult thing the industry faces over the next few months. If we get normal or colder than normal weather, I expect the problems are going to be alleviated a great deal.

Tovey: "I am assuming an economic upswing in the United States in the last quarter of 1971 and continuing through 1972."

Mr. Holman: By the problems, you mean —

Mr. Bower: The problems in terms of the pricing of oil products.

Mr. Holman: Meaning the firming of prices?

Mr. Bower: The firming of prices, or the maintenance of prices.

You interrupted my train of thought.

I think that the environment currently, of course, is not good. The question of participation and the problem resulting from the currency moves by our Administration, have created at least an investor attitude that is not going to be quickly resolved. I think they are certainly overreacting to it.

To me participation is something that is not new. The new style concessions for many years now have been participating concessions. I think if you examine what it would cost the oil companies to permit participation on the order that has been suggested, initially a 20 per cent thing, you would find that it's not very onerous for the companies.

Of course, it's at a time following the price agreements of early this year, which seemed to say to most people that we will have peace for five years. The companies obviously are going to maintain that they have an agreement until 1975, that they own the concessions, and that participation certainly is not a proper subject for negotiation. Nonetheless the discussions are going to occur, and I think that participation of some order of magnitude will be a reality by the end of 1972. I think it's much too late for it to occur this year.

Whether 20 per cent in the Persian Gulf and 51 per cent in Libya are immediately attainable I rather doubt. If you start with the fact that Libya is asking or reputed to be asking 51 per cent, as compared with the alleged 20 per cent being asked by the Persian Gulf nations, it doesn't make much sense.

Libyan oil in the current market is uneconomic; it's overpriced by a significant margin. Unfortunately I can't put it into a specific figure. But if you look at that, recognizing that oil from Libya laid down here or in Northwest Europe or in the U. K. would cost a significant amount more than Persian Gulf oil, and you talk about 51 per cent as against 20 per cent, then you are talking about making it even more uneconomic than it already is.

I think that one of the serious things the oil companies must ascertain is just how much Arab face is exposed.

Bear in mind that following the Algerian assumption of 51 per cent, the Governments of Algeria and Libya announced complete accord as to objectives. Therefore, if Mr. Qadhafi has his prestige on the line for 51 per cent, then the industry has a problem. Hopefully this is not the case at this point. It is my feeling that 51 per cent is an opening bargaining position with the Government willing to accept a lesser percentage initially.

However, if one assumed that the Persian Gulf nations will get 20 per cent initially with the objective of getting 51 per cent participation over a 5 year or longer period, then it is reasonable to expect them to accept for their equity oil, a price half way between tax paid cost and third party market. Such an arrangement would cost the oil companies something like 4 cents per barrel initially.

If one then puts Libya in the same context but at 51 per cent initially, then it would probably cost them in Libya — and this is guessing, but within 2 or 3 cents, I would think — 12 to 15 cents a barrel. So you are increasing the disadvantage of Libyan oil even more by about 10 cents a barrel.

I think the companies can live with this thing. As I say, I don't think the 51 per cent is an immediate reality. I think the crude long companies are going to be in the best position, as they always are, in my judgment, and will continue to be. I think that with respect to investor participation in the oil industry, the thing has been overdone in terms of the international majors. The stocks are selling at the lowest relative multiple in 15 years on a sustainable level of earnings. This is the area that I believe money will be made in oil securities over the next few years — over the next 18 months, say, or longer.

Mr. Holman: I think that we probably ought to follow through with some sort of estimate as to where participation is going to lead the various petroleum companies.

But before we do that, I wonder what are the other aspects of the petroleum field? Are there any parts of this field that aren't as impacted as the typical international oil companies with major holdings in the Middle East and elsewhere?

George, what other areas of the petroleum field are there that you see may not be substantially impacted, if any?

Bower: "The question of participation and the problem resulting from the currency moves by our Administration, have created at least an investor attitude that is not going to be quickly resolved."

Mr. Austin: Sure, I think there are some. I think if you look at the past rate of earnings growth in companies like Halliburton, Lubrizol, and Schlumberger, you will see why the service companies have been relatively good investments over the years. They are in a field which is allied to the oil industry, but is a little less sensitive to the political changes that we talked about, both outside this country and in this country, for that matter.

That's one potential area.

Mr. Holman: You include oil well supply?

Mr. Austin: This would be the so-called service aspects of the oil industry. We think of the oil industry as being the largest in the world. It is. But this service industry is larger than most industrial groups of companies. The service industry includes offshore drilling, pipeline construction, platform erection, subsea completion, specialty products, et cetera. These companies are affected by the

same fundamentals, the basic growth in demand for petroleum products, but they are less sensitive to political changes and do benefit from the activity of each of the large oil companies.

Mr. Vig: If I could interject something, the offshore drillers and some of the service companies are actually favorably impacted in terms of what's happening in the OPEC nations. As the tax paid cost of crude moves up, prospects in the North Sea and other deep rough water areas become economically more viable entities.

We try to concentrate on companies that are in this deep offshore rough water, such as Sedco. Also Vetco Offshore Industries which is involved in subsea completion work.

Mr. Holman: Eliot, what about you? What other parts of the petroleum field do you see as being affected one way or the other by OPEC, apart from the international companies that are directly involved?

Mr. Knight: Well, the logical extension of what Peter says when he refers to the pressure for more, this is going to lead to higher world crude prices, higher domestic crude prices, and higher Canadian crude prices. The Canadian industry is certainly a place to consider as well as exploration companies in this country.

Mr. Austin: It's good to think in those terms, but I can't really imagine that all of a sudden the price of oil and petroleum products will just go up because we have had some difficulties in the Persian Gulf.

Bower: "Libyan oil in the current market is uneconomic; it's overpriced by a significant margin."

Mr. Knight: It's not going to happen immediately, George, I agree, but I think there is going to be steady pressure in that direction.

We've had two crude price increases in the last two years. I am not looking for 25 cents a barrel per year but I think an average annual increase of about 10 cents per barrel is possible.

Mr. Austin: I think this comes back to the political situation, Dick. Say that the price of oil is \$3.50 a barrel. The general price indices in this country have been going up at a 6 per cent rate the past few years. Well, 6 per cent on \$3.50 is, say, 20 cents a barrel per year. And you would say that's what you need just to keep up in the producing segment of the industry. But this is very difficult to come by politically. We haven't seen one this year and probably won't.

Mr. Holman: Karl, how do you appraise the other aspects of the petroleum field?

Mr. Schlubach: Well, I would include natural gas, too. I think we are going through quite a revolutionary phase there, we are going to have to find new supplies or substitutes, such as liquefied natural gas, or synthetic natural gas. I think there may be whole new industries in the offing there, supplying the liquification machinery and processes, tanks, storage, transportation. It's going to be a huge industry.

Mr. Holman: Joe, do you see anyone else impacted, apart from those that have been mentioned?

Mr. Tovey: Not really. I would like to comment about the point that crude long companies would be the ones that would still continue to make out very well. I would agree, with the modification, that the real beneficiaries will be companies with so-called preference crude and preference gas, those with crude or gas in politically safe areas, where a major consuming nation is going to say,



HARRY E. BOWER

HARRY E. BOWER, vice president of Delafield Childs, Inc., was born in Salem, Virginia in 1926. In 1950 Harry received his B.A. from Roanoke College; eight years later New York University awarded him an MBA. Before joining Delafield Childs, Harry served in the United States Navy, was vice president of Anchor Corp., and Petroleum Economist at Lionel D. Edie. A member of NYSSA, the American Petroleum Institute, and the Independent Petroleum Association of America, Harry has two daughters and lives in Clark, New Jersey.

"We really are willing to pay extra for this, relative to what we might pay for crude or LNG from a less stable source. If necessary we will permit the price to rise, irrespective of a decline in the price of crude or liquefied natural gas from less politically safe sources, just to keep a degree of domestic control and safety in our supply of energy."

Bower: "I think the crude long companies are going to be in the best position, as they always are, in my judgment, and will continue to be . . . This is the area that I believe money will be made in oil securities over the next four years . . ."

Mr. Holman: Who fits in the politically safe category?

Mr. Tovey: The North Sea countries, Australia, Canada and the U.S. would fit into that category at this time. Companies that are involved extensively in German and Dutch natural gas would tend to be beneficiaries, as would companies involved in LNG in Brunei or Australia, rather than being involved in liquefied natural gas in Libya, Iran or Venezuela.

I think this may be where we are going to see big differences between one major and another, over time. The successful major could well be the one who has been politically shrewd at determining which countries are going to be safe in the longer run. He is going to be able to sell his oil and gas at a premium price and pay a low tax, while the other major, who may have bigger reserves

and more production but is in less politically favorable areas, has his profits taken away by high taxes.

Mr. Holman: How about the other companies that George mentioned, supply companies, offshore drilling, platform companies?

Mr. Tovey: I follow in depth only six companies: Arco, Gulf, Mobil, Royal Dutch, Shell Oil (U.S.) and Sohio — so I'd rather not comment.

Mr. Holman: Now let's turn to the touchy question of participation. Which are the major companies that are most likely to be affected by what appears to be in the offing for the Organization of Petroleum Exporting Countries?

Mr. Austin: I think we would all agree that participation is nothing really new to the oil industry. It's an unfortunate thing that it's a highly politically sensitive subject, it gets a lot of publicity. But as to the oil industry, this participation thing goes at least as far back as an address that Mr. Yamani made at the American University in Beirut in 1968, calling for a share in the oil concessions. That's just by way of background, but in answer to your question, I think there are seven large companies that are involved, and I think without any difficulty we could all agree on the seven.

Mr. Bower: I think probably more immediately, however, would be the newer internationals in Libya, because there is where the argument for the higher participation is initially.

That would be the Oasis companies, which are Amerada, Continental, Marathon. Shell is part of this of course but Shell belongs in the other category. And Occidental and Nelson Bunker Hunt.

The participation question goes back a lot longer than that. I don't remember the dates, but, Karl, perhaps you do. Standard Indiana made a participation agreement in Iran back, God when, in the early '60s, and Abduman Turiki, who was the first Minister of Petroleum in Saudi Arabia, that I remember, has been talking about participation for a decade.

Austin: "I think if you look at the past rate of earnings growth in companies like Halliburton, Lubrizol, and Schlumberger, you will see why the service companies have been relatively good investments over the years."

Mr. Holman: Who are the key countries in the organization?

Mr. Bower: Libya, Saudi Arabia, Kuwait, Iraq and Iran are the key countries, and then you have the other Persian Gulf and African states.

Mr. Schlubach: Nigeria and Venezuela are in it, too.

Mr. Bower: Who have their own participation schemes and go it alone. Could I make one other point on this thing?

I agree with George's concept that logically, in an area where most of the oil is located, if it becomes more costly to do business, and people, either in the industry or out, conclude that it's not politically a very desirable place long-term, then any area that's going to benefit from it is going to be an area we have to look at as oil men.

One of the things that logically results just from this and nothing else is that you are going to look for oil in areas where it's "politically sound and politically safe."

There is no such place, in my judgment. But that is what's going to happen. The question then becomes what is the price of getting into the ballgame? I would disagree on an equity basis, but not on fundamentals in the

oil service and supply group. I think the price you pay to get into the service area right now is a pretty steep one. I believe the price to get into Canadian exploration is not so steep, although it's further down the road in terms of a payoff.

I don't believe there is any such place as a politically safe area, and I don't think there is a place that does not pass ex post facto laws. If you will look at the United States, where people had been assured of a 27½ per cent depletion allowance for so many years, then Congress passes a law and says they don't have it any more.

Mr. Schlubach: When you have a politically protected industry, it comes under continuous assault, as the depletion allowance has in this country. And that's not always the best investment climate.

There has been one threat of Government intervention after another.

So it isn't all that happy an investment climate. Although I think there may be a point where the people will say they would rather have domestic supplies at a higher cost than imported and uncertain supplies.

Tovey: "... the real beneficiaries will be companies with so-called preference crude and preference gas, those with crude or gas in politically safe areas ..."

Mr. Knight: Harry, when you said look at the United States, I thought you were going to add look at the North Slope, which backs up exactly what you are saying.

Mr. Austin: That's the irony of the entire situation. If those delays would have happened any place other than in this country, it would have been condemned as expropriation.

Mr. Bower: If somebody told me that because of pollution or ecology we wouldn't build a pipeline in Alaska, I would have told him he was out of his mind.

Mr. Holman: You mean the ecological and environmental factors come in?

Mr. Bower: That's sort of ex post facto, isn't it. Just God only knows when they are going to take any oil out of there.

I would like to defend something that I said earlier, that I believe that the money lies in the crude, that the power lies in the crude, and I think this will be the case so long as the oil companies control the source of crude. I don't think they have to own it; I think they have to control it. Except for a brief period in 1967-1968 we have not seen a margin of any significance downstream since 1963.

Mr. Holman: You mean in the refining operations?

Mr. Bower: Yes, beyond the level of crude.

Following the six day war in 1967, product prices rose and there was a recovery in margins downstream. However, by late 1969 — early 1970 prices had eroded to such an extent that only the most efficient operators — Esso [Standard Oil Co. (New Jersey); Ed.] and Shell — could have any margin downstream in Europe. Prices began to improve early in 1970, and things started to happen — Tapline was shut-off; Libya cut back — which accelerated the upward move. In the volumes represented, a move from a negative margin to a modest per barrel profit involves a fantastic amount of money. This led a lot of people to state that the margin is shifting downstream. And that's poppycock! It has not occurred and it's not going to occur any time soon. Downstream is a different element where the buyer generally has more power. When one is considering crude he is considering the major com-

panies dealing with a large number of smaller entities that must have the crude. The company that controls the crude has the power and the upper hand.

There are times when the crude seller doesn't quite have the degree of control as he had in the past, but he has always made a margin. In times of the greatest crude surplus we have ever known, there was 15 or 20 cents a barrel margin from independent Iranian crude, that was marginal crude, but they were making some money on it.

Mr. Holman: Who sits in the catbird seat then?

Mr. Bower: People who control the crude.

Mr. Holman: Who are?

Mr. Bower: International oil companies, the seven international majors.

Mr. Holman: Who particularly among those?

Mr. Bower: Esso, of course, is in the best seat.

Mr. Austin: You mean size-wise or balance? I think Dick means which is in the best —

Mr. Bower: I would say Esso again, because Esso probably has the most diversified sources of any company in the business.

Bower: "... I believe that the money lies in the crude, that the power lies in the crude, and I think this will be the case so long as the oil companies control the source of crude."

Mr. Holman: Peter, how does that thesis sit with you?

Mr. Vig: I partly agree with Harry. Not only the companies that have the crude but those that are successful in developing new production in non-OPEC areas and are also well integrated in Europe, stand to benefit the most.

You are going to have to make up this profit erosion or increased take by the host nations at some point in time, and I think the companies who were early to get into refining-marketing in Western Europe, where the installed cost of a refinery has approximately doubled in the last five years, and economies of scale are important, are the companies best structured. That's Standard of New Jersey and Royal Dutch.

Mr. Bower: We are not in disagreement at all.

Mr. Holman: Right now the international oil companies are selling at a fairly modest level, historically, to put it euphemistically. Any reason to feel that this is going to change for the better?

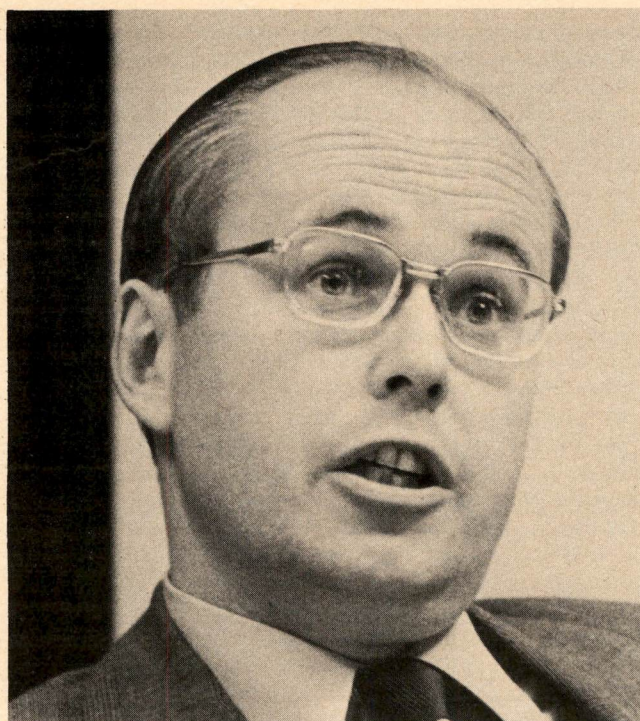
Mr. Vig: I think on a year to two-year basis the stocks can be bought, but we are not talking about oils in isolation. Oils have to compete with alternate investment vehicles.

The portfolio manager also has the industrial recovery going for him in the United States. He is looking at consumer oriented equities such as airlines, consumer durables, and shelter related stocks.

Mr. Bower: Hopefully.

Mr. Vig: Hopefully is right, but that is their thinking right now. The reflection we receive is that the international oil stocks are cheap relative to historic and market standards. But with these huge capitalizations — "I can put my money into them within two to three weeks' time, so I'll buy them later when the problems of foreign demand and OPEC participation have been resolved."

Mr. Knight: You have to quantify the risks that you have in these international oil stocks as well as the potential reward. The major problem we have all identified is the matter of participation for which there is no one answer at the moment. We just don't know how this is going to turn out.



ELIOT S. KNIGHT

ELIOT S. KNIGHT, who is vice president at Smith, Barney & Co., Inc., is a native New Yorker, born in 1935. He received his B.A. from Amherst College in 1957 and his MBA in 1959 from Stanford University. A veteran of the United States Army, Eliot is a member of NYSSA and is President of the Oil Analysts Group of New York. Eliot lives with his wife and three children in Madison, New Jersey.

I think what we have to do is try to step back and try to project ourselves a year into the future and try to figure out what could this industry look like a year hence. Will we be well on the way towards solving this participation question?

I submit that yes, we will. I don't know precisely how it is going to be resolved, but given normally cold winter weather this year, the inventory situation ought to be out of the picture, and I would say that anything that the oil companies have to pay in the way of increased tax payments because of participation, they stand an excellent chance of getting most of this back.

Mr. Holman: By passing it along?

Mr. Knight: In passing it along downstream, yes.

And once the uncertainty is removed, again assuming that we are a year out in the future, then I think that what Harry says about the multiples on these stocks is going to be more evident. I think we will see higher multiples perhaps 12-13 times estimated 1972 earnings.

Bower: "... Esso probably has the most diversified sources of any company in the business."

Mr. Holman: Compared with what do you see now?

Mr. Knight: Well, based on this year's estimated earnings, on average, they are a little under 10 times earnings, and they are around 9 times estimated earnings for 1972.

Mr. Holman: Karl?

Mr. Schlubach: Well, to amplify a little on this issue of participation, I would think that the participations will be phased in gradually. By that I mean if there is a 20

per cent participation, they will arrange to pay for it out of earnings over a period of time. This has been the pattern in the past in deals of a somewhat similar nature.

That means that as far as the cash flow of these major oil companies is concerned, they will not suffer nearly as much as in the case of an abrupt overnight participation of 20 per cent without any compensation.

I also feel, along with Harry, that by the time you divide it up and relate it to the per barrel profits now, the impact isn't all that great. And I think that once a pattern has been set by one or two nations, the others will follow. And then the horizon will become a little clearer and we will be able to perhaps price our stocks a little higher than we are now.

Mr. Holman: Joe, do you disagree?

Mr. Tovey: I think we may have a "heads you lose-tails you lose" situation with the producing nations vis-a-vis the companies.

If product prices improve considerably in Europe, we are apt to see retroactive taxation. Venezuela, as you remember, retroactively raised taxes when fuel oil prices improved. If, conversely, there is a slowdown in the European and Japanese economies, which we are already seeing, we are apt to see great pressure on product prices and profits.

The institutions seem to be somewhat concerned about these things, and should the multiple of the internationals rise to any decent extent, we may see a great deal of international oil stock coming out of the woodwork.

Mr. Holman: Your outlook for the next year for the international oils is —

Knight: "I think what we have to do is try to step back and try to project ourselves a year into the future and try to figure out what could this industry look like a year hence."

Mr. Tovey: Assuming a moderately bullish market, I see a downside risk of 10 per cent or so and an upside potential of 15-20 per cent.

Mr. Knight: Joe, I would add one thing: That what you are saying is that whenever a stock group is depressed, many investors have the feeling that if the group shows any strength, everybody plans to bail out.

Investor psychology is a funny thing. Strength develops and, for one reason or another, that selling pressure that we thought was going to come, doesn't come — certainly it doesn't come as quickly as we thought that it would.

You made a comment that was interesting, and I wonder if you would amplify on it. You said that if we have a weak market in crude and product, you felt that this could slow participation.

Mr. Tovey: I look at the position of the majors vis-a-vis the producing countries as a relative power situation, bilateral oligopoly, if you will. So, if you have a strong European economy, excellent demand for products and a need for crude, the producing nations may have the majors at a negotiating disadvantage. If, on the other hand, you don't have a strong demand, the majors are in a position to say to a producing country, "We don't need all available crude, so we will lift more from someone else and less from you, if you get nasty."

This is strictly an evaluation of the relative power of the two groups.

Mr. Holman: What is there to indicate in the international oil field that you won't have another Chile copper situation?

Mr. Austin: There is one big difference, and that's that

there are really a large number of buyers of copper, and there are only essentially seven buyers of oil.

Now, there are some independents, but they don't represent much more than 25 per cent of the free world market for oil. So it is these seven companies that transport, refine and market 75 per cent of the world's oil production, outside of the U. S.

And the other thing is that there is a tremendous required investment in the downstream operations, a tremendous investment. And you just ask yourself, if you were the producing Government, receiving, say, right now, one billion dollars a year from oil revenues, are you going to keep that money in your own country for social or diversification purposes, which is certainly desirable and certainly what they will probably do, or are you going to invest it in some refinery and chain of service stations in Europe?

And even if you were, it would require many more billions of dollars than they have coming in.

Tovey: "... should the multiple of the internationals rise to any decent extent, we may see a great deal of international oil stock coming out of the woodwork."

Mr. Holman: The key is control of marketing?

Mr. Austin: The control in the hands of a few rather than many, but the other key thing is the tremendous required investment in downstream operations which the Governments, even if they wanted to, don't have the money to do.

Mr. Tovey: I'm not sure; a great deal will depend upon whether the consuming country Governments will support the majors.

Mr. Bower: I would like to come in on what Joe says and sort of support George a bit, if I could. If you would look back to last year and the situation that developed, where the strength moved into the hands of the host nations, as opposed to the hands of the oil companies, then you could conclude, I think reasonably, that if you were sitting in a situation where there was loads of oil in inventory, then the hands of the oil companies in dealing with the host nations is strengthened.

And I think this probably has some merit at this point. Obviously it would take quite a long shutdown on the part of the host nations to bring about a very free inventory situation and the need for the oil companies to cave in.

But I really don't think that this is going to have a very important bearing on it. We are talking about very sophisticated people on both sides of the table in this thing, and I think that a great deal of logic is going to develop in it. I believe that the host nations understand the oil companies' position, and it's going to be a protracted thing.

But I think participation is going to be a fact. I agree with Karl that it's going to be a gradual thing. I don't think it's going to be of the percentages initially that are being talked about, but I think in five years it's going to be 51 per cent.

Mr. Holman: Is there a substantial amount of crude available outside of the OPEC countries?

Mr. Bower: No, there isn't. I would like to back up what George said. Last year there was a great blessing that resulted from the problems that occurred with OPEC because it really brought to bear in the consuming nations how vital the international oil companies are, what a fantastic investment they have in facilities beyond the

crude level, and what a tremendous thing it would be for them (the consumer Governments) not only to consider any taking over or buying out at even nominal rates, but what it would be to supply facilities to accommodate the growth.

There is a tremendous capital investment necessary to provide just the kind of growth we are looking for downstream. And I'll guarantee you that not France, not Germany, not anybody else wants to make this kind of investment.

The oil companies then in my judgment are sitting in sort of a catbird seat in spite of their loss of power in the OPEC countries, because they still control the crude and they do have the power of disposal.

I think this is a vital thing, a very vital thing, and I think it argues very well for the position of the international majors long-term. This doesn't mean they are going to have the kind of margins they had 20 years ago, but I think it does mean they are going to have a margin both on the crude side and sometimes on the downstream side.

Mr. Holman: Should the downstream facilities, as a practical matter, be located in the producing countries?

Mr. Bower: No, and as a practical matter today, absolutely no. If Venezuela doesn't convince one of this, nothing will.

Bower: "... I think that 18 months to two years out, you are going to be very happy that you own them (international oils) if you buy them now."

Mr. Austin: Esso built a tremendous LNG facility in Libya, \$350 million, and was going to sell the liquefied gas to Italy and Spain. They finally got onstream after many, many months of not start-up problems but political problems.

Mr. Bower: Could I mention one more thing I forgot that Karl mentioned?

Whatever payment for the participation that comes from the OPEC nations will be a token thing initially and very token. Their payment will be out of production. There is no question about this.

And it will be based on the net asset value, nothing else. That's what it will be. And that's not a big thing.

Mr. Schlubach: Doesn't the net asset value, the yardstick, worry you though, because that's very low.

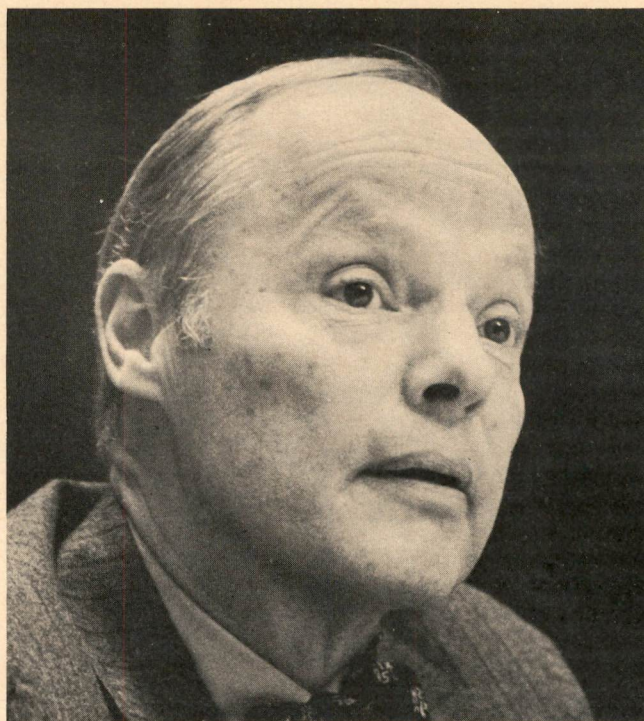
Mr. Bower: That's a fact of life, so that's what it's going to be.

Mr. Vig: I don't think that OPEC, because of capital investment as well as possible competition between producing countries, wants to throw out the international oil companies; but they have shown the oil companies that OPEC controls the reserves that fuel the European and Japanese economies and the OPEC countries can act in concert.

The OPEC nations showed the world that prevailing prices for crude oil and its products are not effective limits to higher host Government takes and that the tax inflated oil cost can be passed on in the market place. In fact, the companies not only passed on their higher taxes, but they actually improved margins. The OPEC countries are interested in higher revenues per barrel for what is essentially a wasting asset.

Mr. Holman: Does anyone on the panel feel that now is a good time to buy the international oils?

Mr. Bower: Yes, I do. I do, very much so. I think that whenever you can buy a group of stocks like this, where



KARL W. SCHLUBACH

KARL W. SCHLUBACH, a Partner at Hamerslag, Borg & Co., was born in Hamburg, Germany. After receiving his A.B. in 1935 from the University of Kentucky, Karl earned an MBA from the Harvard Business School the following year and then, in 1956, a Ph.D. in Economics from New York University. In World War II Karl served as Captain with the 11th Airborne Division. Before joining his present firm, Karl was a Petroleum Analyst at Goldman, Sachs & Co. Presently Karl resides on the East Side of Manhattan.

the outlook for earnings — I'd like to qualify this by saying I'm not a "next three-months or six-months" kind of analyst. I look longer term, 18 months or longer. I think whenever you can buy a group like this, where the level of earnings power is sustainable, where there is a reasonable expectation or a reasonably definable expectation that earnings will expand over the intermediate to longer term, then they become an attractive area.

Austin: "... if we assume that the demand for petroleum products is going to grow 8 per cent per year throughout the Free World, then these international oil companies most likely will show earnings growth ..."

Now, that doesn't mean that you won't go through, as I believe you will, a further period of three to six months, where they are not going to be a robust group. I think they are approaching a bottom, and I think that 18 months to two years out, you are going to be very happy that you own them if you buy them now.

Mr. Schlubach: I would agree that they are an excellent buy for some pension funds, for instance, who can afford to take a long-term point of view.

I think that for the performance funds who are worried about what they might do in the next six months, they are not the best buy.

Mr. Bower: I agree wholeheartedly.

Mr. Holman: George?

Mr. Austin: I would answer that this way:

I think if you look at the investment in international oil stocks over a long period of time, say over the last 15 years, you will find you have done fairly well. And that's considering that in 1955 the average multiple of those large companies was probably just about where it is right now, say around 10 times.

But the problem is, and I would add also right there, that you really don't have that much more uncertainty, although from our discussion you would think you do. But there was uncertainty then, there was uncertainty in 1960, 1965 and 1970.

But the problem is, you have got to be absolutely right about your fundamental analysis, because there is not much margin for error.

With all this uncertainty and all this risk, I doubt whether they will get a 13 or 14 multiple for any length of time. So you can't count on price appreciation through multiple improvement. You have to be sure of your earnings analysis. There you come back to the thing we haven't talked about and that is the outlook for demand for petroleum products, which is really the key variable in this industry.

There is a tremendous amount of consumption, and a growth rate of 8 per cent, instead of 10 per cent or instead of 6 per cent, makes one big difference to the leverage in these types of companies.

My point is that you have got to be absolutely right about your fundamental analysis.

Mr. Bower: George, really, aren't you saying that the real risk is in terms of a sterile investment, because you think the downside risk is not significant in these stocks?

Mr. Austin: There is a possibility that you are only going to get, as you have over the last 15 years, say 8 or 9 per cent return per year if the multiples decline. That's my only point.

Mr. Knight: Well I've got more than half of that 8-9 per cent locked in, in the current yield right now.

George, you say the multiple of the internationals is 10 times now, and that it's about the same as in '55, but where was the market multiple then? The market multiple then was lower, I dare say, than it is now. Harry pointed out that on a relative basis, it is now the lowest in 15 years.

Jersey and Texaco are now at the deepest discount relative to the S&P 425 that they have been at in this period.

Schlubach: "I would say, primarily, it is the balance between production, and its location, refining, and marketing, those three elements. I think that in this respect, Texaco has the greatest strength."

Mr. Bower: I think really this is one of the things you have got to consider at any time in looking at oil stocks.

One of the things that's always intrigued me about the oil industry is its political involvement, and not since I have been in it has it been absent; it is always there. And it is one of the things you have got to live with, and it is one of the things that the fund managers, who in my judgment are seldom very sophisticated when it comes to the oil area, somehow or other find it impossible to live with. Only when the stocks look dirt cheap and the political environment is perfect, are they willing to plunge with the international oils.

Mr. Holman: What do you attribute the low position to?

Mr. Bower: I think it is the awfully bad press we have

on anything related to oil in addition to the OPEC question and currency problems.

Mr. Vig: The uncertainties affecting the international oils such as OPEC participation, the outlook for prices in the Eastern Hemisphere — and again I come back to the fact that we are not investing in a vacuum; the fact that investment managers are optimistic about corporate profits in general next year make me conclude that there are other groups that may be relatively more attractive at this time.

Bower: "I don't think that it is the best balanced (Texaco). I think the best balanced oil companies are Esso and Shell, for many reasons."

Mr. Austin: Peter has mentioned that twice, and all I was trying to say earlier was that you have got to be absolutely right on your fundamental analysis.

Now, if we assume that the demand for petroleum products is going to grow 8 per cent per year throughout the Free World, then these international oil companies most likely will show earnings growth of about that order of magnitude, because they have a tremendous ability to keep their unit costs in line despite all these political problems.

So there you do have the 8 per cent rate of earnings growth, on top of what Eliot said, a 4 or 5 per cent dividend return.

Mr. Knight: 5 per cent or more on every one of them.

Mr. Austin: It changes every day. There you have a 12 or 13 per cent total rate of return.

Now, what Peter is saying is there is a better relative outlook for other industries, but perhaps that's just a short-term phenomenon — one year, two years or three years. Whereas, if you are right about this demand analysis, then you have this 12 or 13 per cent rate of return for quite a few years, because I don't see any other alternative economic source of energy on a large enough basis to make any difference for the next 10 or 15 years.

I was talking previously about the multiples, and now I am talking about the fundamental analysis.

Mr. Vig: I think the stocks are cheap, but you have to look 12 to 24 months to expect a measurable price-earnings ratio improvement for the international oils.

Mr. Tovey: We might foresee an 8 per cent growth rate in the consumption of these products, and it still may not help earnings. In the case of one major, going back over a six-year period, its earnings for five years went up beautifully, in line with the growth in consumption of petroleum. In the sixth year, they made a wrong guess on a commodity, tankers, and got hurt.

Where you are dealing with commodity-type stocks — let me use the coppers as an example — you can be entirely right on your long-term growth rate for copper, but it is the change in the price and margins that is important. Commodity prices are determined at the margin, by the supply and demand curves we all studied in school. The difference in being right on a 6 per cent or 8 per cent growth rate that George mentioned is a question of losing your shirt or not, because at a 6 per cent growth rate you have inventory coming out of your tanks, and you must sell your product at, say, \$2 a barrel; or will you be able to sell it at \$5 a barrel, with very great differences, obviously, in your profit margin.

The point is, you are not dealing with a fixed margin per unit.

From a stock market viewpoint, I think that investors

increasingly realize that these are not defensive stocks in down markets; that their growth rate is not an assured 8 per cent just as surely as a taxi meter clicks; and that the companies are increasingly subject to political pressure, performance of the international oil stocks will be relatively worse than that of the S&P 425.

Granted, one can make money in these stocks, but one could very likely make a fair bit more with other groups. Unless one has good reason to expect the commodity cycles affecting the international majors to work out well over a long enough period to help their earnings, this group is not apt to perform as well as the 425.

Mr. Knight: May I ask a question this way: If you were looking out 12 months, would you then sell the international oils that you own?

Mr. Tovey: Yes, even though their earnings are apt to be better than most forecasts. I think that an investor could do better in other areas of the oil industry, owing in large part to the continuing concern of investors about the majors' OPEC problems.

Mr. Austin: The flaw with that argument, Joe, is your short-term emphasis on margins. Say demand grows 8 per cent a year and your margin erodes and there is no profit; so sooner or later the market tightens up and prices do improve and all of a sudden the margins, instead of going down one year, go up the next year, and in fact, you get a 15 per cent rate of growth in the earnings, and this whole cycle goes around again.

The point is that when you look back on it, you still have this roughly 8 per cent rate of earnings growth over a fairly long period of time for these large international oil companies.

Vig: "Royal Dutch, too, is a company with a diversity of crude sources, plus the forward integration in Europe — in fact, the most leverage in terms of product prices. In addition, Royal Dutch has a major exploration effort in the North Sea."

Mr. Tovey: Let me express my view somewhat differently. The point I am trying to make is that the swings caused by the commodity cycles are more important in the year-to-year earnings comparison than the long-term growth rate, and that to focus on the latter for oil and not the commodity cycle may not be the most profitable way of doing things for an investor.

Mr. Holman: What segregates out one international oil company from another? Is one company better situated than others, either for management or internal factors or control of source of supply?

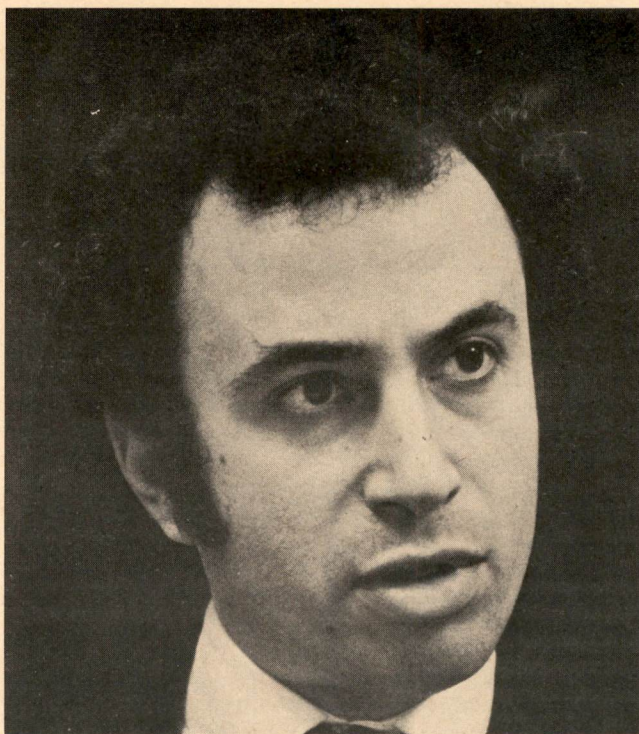
Mr. Schlubach: I would say, primarily, it is the balance between production, and its location, refining, and marketing, those three elements. I think that in this respect, Texaco has the greatest strength. They have always kept that in view. I have talked to the management of Texaco about what they think is their primary strength, and it is this balance.

Mr. Austin: I think balance is basically right.

Mr. Bower: I think it is the cheapest of the international oil stocks at the present time, but I don't agree with what he said.

Mr. Holman: Where do you disagree?

Mr. Bower: I don't think that it is the best balanced. I think the best balanced oil companies are Esso and Shell, for many reasons. They have the best balanced sources of supply. They are without question outside of the United



JOSEPH TOVEY

JOSEPH TOVEY, Oil Industry analyst with Roth, Gerard & Co., was born in 1938, grew up in the Southwest, and has lived in New York since 1954. After graduating from Brooklyn College in 1959, Joe received both his MBA and his Ph.D. from New York University, in 1961 and 1969 respectively. Before joining Roth, Gerard, Joe was with A.G. Becker & Co., Mobil Oil Corp., and Lybrand, Ross Bros. & Montgomery. Joe has been a frequent contributor of articles to professional journals and served as Associate Editor of Tax Letters from 1961-1966. Married and the father of three children, Joe makes his home in Brooklyn.

States the lowest cost integrated operators. And I disagree — Texaco may be the third, but it is certainly not as low cost an operator as either Shell or Esso.

I would like to deal with some other things that have come up, if I could.

To me, if you could show nine years of growth and then have a bad year, I don't think that's bad. This tanker thing, which has gotten an awful lot of emphasis — and rightfully so, of course — is not a normal kind of thing. If you will look back, it has always been — except for a couple of occasions — desirable to be as heavy in the spot market as possible, because it saved you money.

Bower: "The United States and every other place in the world, in 1980, and beyond is going to be looking to the Middle East, because this is where it is . . ."

In the Suez situation, back in '56-'57, it paid to have been in the long charter and owned position, because as a result of the closing of Suez, spot charters jumped like nobody's business and it hurt the hell out of some people.

The same thing occurred in '67. It occurred again last year, and it was all related to Suez or factors that were imposed upon Suez.

I think you are going to reach a time — and I don't think it's too far out — where Suez isn't going to make any difference.

I don't think it is right to take a position on an international oil company on the kind of basis that I look at them [and all other oil stocks] — the 18 months to three-year concept. I don't think that the tanker thing is an awfully meaningful one.

It can clobber the hell out of a company when the spot rate goes from world scale 80, say, to world scale 320 or 330, as has occurred. Then a company caught heavily in the spot market is in one hell of a position, but that's a very temporary situation.

Look at the spot market today. In the Persian Gulf one can get a 50,000 ton tanker for world scale 30 or 40.

Mr. Tovey: You raised a perfectly valid point, that there are times when it pays to be in the spot market for tankers, and times it pays to be fully covered by long-term charters. That is purely a question of the relative rates. Right now, there are some majors that are fully covered long-term at 80, but their competitors are spot chartering at 35 and are able to undercut them in the product market.

Mr. Bower: What makes it all a problem and why you have a problem at the moment is the thing I started out with in the very beginning.

The thing that did it was weather. We ran into a situation last year where there was great concern in Europe about a shortage resulting from the closing of Tapline and Libya's cutback, and you had the situation in this country where people started talking about a fuel crunch. The oil companies here and abroad wanted to make damn sure that they were able to supply every ounce of oil that anybody needed. They did not want a bad press any more, they had enough for a long time.

If you cut off everything, they were ready to fulfill the requirements. For some reason, the oil companies assumed we were going to have the most frigid winter in history.

Mr. Holman: Is that what boomed tanker prices?

Mr. Bower: That was part of it. In addition, with the closure of Tapline and the production cut back in Libya, more than one million barrels a day of crude which was only a stone's throw from the major markets of Europe, had to be replaced from the Persian Gulf. With Suez closed, the crude had to be shipped around Africa thus increasing the tanker haul up to six times.

Bower: "From the end of 1970 to the end of 1973, we are talking about a growth in capacity, refining capacity, of a little over a million barrels a day . . ."

Mr. Holman: Where does that leave you now? Are there any international oil companies that you would buy at this point? Which ones would you single out, if any?

Mr. Bower: As I said, I think Texaco is the cheapest. And, forgive me, I can't remember figures, but it has the lowest multiple, and I think in terms of the earnings figure I'm using, that I see the biggest gain.

Mr. Holman: Second would be what?

Mr. Bower: First Texaco, then Esso, then Standard of California and fourth, Royal Dutch.

I think all of them are relatively attractive.

Mr. Holman: Peter, how would you appraise it at this point?

Mr. Vig: No. 1: We would rate Standard Oil of New Jersey and No. 2, Royal Dutch.

Jersey is a company that has great strength in the Eastern Hemisphere, in terms both of diversification of crude sources and refining marketing. Plus, it has large

incremental earnings coming from its European gas fields.

Further, in North America, it has some two billion barrels on the North Slope and perhaps one to two billion barrels in Santa Barbara. Also, the Company owns 70 per cent of Imperial Oil; through its 70 per cent ownership of Imperial it has exposure to large potential exploration plays in the Canadian frontier areas.

Royal Dutch, too, is a company with a diversity of crude sources, plus the forward integration in Europe — in fact, the most leverage in terms of product prices. In addition, **Royal Dutch** has a major exploration effort in the North Sea.

Schlubach: "Standard of Indiana . . . now more of an international company, is one of the more favorably situated companies."

Mr. Holman: Eliot, how do they seem to you?

Mr. Knight: We think the group is very attractive, Dick. I think they are going to move as a group and we are really splitting hairs when we try to say which is the most attractive. I think if we go around the table, probably every person here will have a different one that he likes best and can substantiate it. I think I can make a case for each one of the six internationals, as to why it is attractive.

At the moment we happen to have **Jersey** and **Texaco** on our recommended list.

We also like **Gulf** and **Standard of California**.

Royal Dutch has all the advantages that Peter speaks of. I really think we are looking at a group here which will move as a group.

Mr. Vig: I would disagree with Eliot. In an institutionalized market, which has characterized the market over the last 18 months, you have got to be very discriminating in terms of stock selection within the group.

Of the six internationals that we monitor, the average for the six companies since the 1st of the year is down slightly in excess of 10 per cent, while **Standard of California** and **Jersey** are off less than 3 per cent. In contrast, **Gulf** and **Mobil** are off more than 15 per cent.

So I think stock selection will continue to be very important.

Mr. Holman: Joe, I know your views on the group are not as favorable.

Mr. Tovey: Assuming a modestly bullish stock market and buoyant domestic economy, I think that one can do relatively better in certain other parts of the oil group, even though the majors' earnings will probably be better than most forecasts of which I'm aware.

Let me revert to your prior question, as to what distinguishes one international major from the other. I think there are at least three important areas of distinction. One, the source of the earnings, what part is from the U.S., Canada, Venezuela and the Eastern Hemisphere. What part looks poitically safe?

Two, the sources of crude and natural gas, both actual and potential. Who has big reserves in the U.S., Canada, the North Sea, Australia, relative to the reserves held in the OPEC countries? Who is exploring in the Middle East, and who is exploring in Canada and the North Sea? Who has a good acreage spread in the high potential, politically safe producing areas?

Three, where does a company have its major markets and in what products? Who is strong in the German gasoline market at a time it is going up? Who is strong on the U.S. East Coast gasoline market, when it is strong

and the West Coast market is weak? Who has a lot of low sulphur residue and who has mostly high sulphur?

These differences will reflect themselves firstly in earnings, but secondly, in the relative multiple accorded to any company in the group. Although the stocks may tend to move as a group in the market, if somebody says, "This company is cheap and this company is dear," there is often a good reason why.

Over a five-year span, these distinctions will be important in the relative performance of one international major's stock versus another's. For one or two years, these differences are not likely to be dreadfully important.

Knight: "Indiana and Atlantic Richfield are the two stocks we have on our recommended list at the moment."

Mr. Holman: Who would you rate as the two strongest in the group, even though you generally don't favor the group?

Mr. Tovey: In terms of market performance?

Mr. Holman: Yes.

Mr. Tovey: Since I only follow in depth some of the group, I'd rather not comment.

Mr. Holman: Karl, how do you appraise the situation?

Mr. Schlubach: I just pick Texaco and let it go at that.

Mr. Holman: George?

Mr. Austin: I will let my colleagues make the specific recommendations, but I would say if you look at these large international companies over a long period of time, they have generated the types of earnings growth that I mentioned earlier.

I think, again, the most important question is what is the demand for petroleum products going to be in the future? We all spend a lot of time thinking about it, wondering about it, but I still haven't met a person yet or seen any society that wants to accept a lower standard of living. You will have to say that the demand for petroleum products is going to continue to increase.

Mr. Holman: Is there any reason to feel that the 8 per cent figure, which I guess is roughly what George mentioned, would not be reached fairly consistently for the next two or three or four years?

Mr. Knight: 8 per cent demand growth?

Mr. Holman: Yes.

Mr. Austin: Worldwide.

Mr. Knight: I think it is too high for '72.

Mr. Austin: Dick, I'm talking about over the 1970s, a long period of time, 10 years.

Mr. Holman: It would average out at 8 per cent a year?

Mr. Austin: Right.

Mr. Bower: Including the U.S. Including the U.S. '72, you would disagree?

Mr. Knight: I would say 6, 7, going through the '70s.

Mr. Austin: Suppose we settle on 7. That would be good enough.

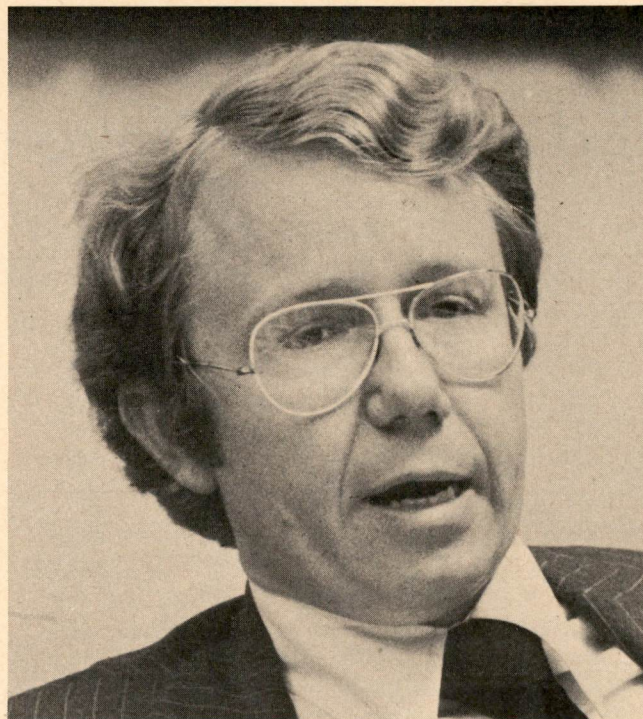
Mr. Schlubach: We underestimated the group the last three or four years.

Mr. Bower: I believe the problem in 1971 is that they overestimated it.

Mr. Austin: I think Harry hit it on the head. It is not going to be 7 per cent this year.

Mr. Bower: If you had 7 per cent this year, you wouldn't be looking at the ball game you have now.

Mr. Holman: Would you agree that that's somewhat the magnitude you would expect over the next five to seven years?



PETER R. VIG

PETER R. VIG, Investment analyst with Oppenheimer & Co., hails from Columbus, Georgia, where he was born in 1940. He received his BBA in 1962 and his MBA the following year, both from the University of Georgia. A member of NYSSA, Peter worked for Texaco, Inc., Shearson, Hammill, and Union Service Corp. before joining Oppenheimer & Co. Peter lives in Manhattan's Upper East Side with his wife and child, and in his spare time he enjoys a good game of squash.

Mr. Bower: I think 8 per cent is a pretty logical number for the longer term.

Mr. Austin: If there was an economic alternative, we wouldn't worry about it. But if you look at any other source of energy — liquefied natural gas for one.

Mr. Holman: Coal?

Mr. Austin: Nuclear energy for another — but that 8 per cent rate of oil growth assumes that nuclear is between 5 and 10 per cent of world energy consumption in 1980, it assumes that the nuclear plants are going to come in.

Knight: "Atlantic — the company seems to be in a rather unique position compared to the average domestic company, in having substantially added to and increased the life of its North American reserves because of its position on the North Slope."

But I was referring to liquefied natural gas, synthetic products, say natural gas from coal, and petroleum products from coal, oil from tar sands, oil from shale. These involve tremendous investments and very high unit costs, which our society is unaccustomed to paying.

So that until we can have some kind of breakthrough in terms of developing an economic alternative, then oil just happens to be cheap. That's all there is to it.

Mr. Holman: Joe?

Mr. Tovey: Given present technology and politics, I
(Continued on Page 54)

Educational Development Corporation

Johnston, Lemon & Co.
Southern Building, Washington, D.C.

Approx. Price	7
Price Range:	
(1970):	8¼-3¾
(1971):	9¼-5¾
Shares Outstanding:	2,064,620
Earnings Per Share:	
FY 2-27-71:	\$0.16
FY 2-29-72 Est.):	\$0.28
FY 2-28-73 (Est.):	\$0.45
P/E Ratio (1972 EPS):	25.0×

Recommendation — We recommend purchase of Educational Development Corporation (EDC) common stock at this time based on the following factors:

- (1) Revenues for fiscal 1971 were more than double those of the previous year while earnings per share increased five fold. Revenues and earnings are expected to grow at a rate of 50% per annum in the next two years and by more than 25% annually over the longer term.
- (2) EDC is a fully integrated educational publisher of supplemental materials for the elementary and secondary school market. Although the market served has a small base, supplemental material sales are growing rapidly as school administrators and teachers attempt to increase the efficiency and enhance the quality of education to meet the individual needs of students in today's changing social environment.
- (3) EDC offers a "complete systems approach" to classroom education. This approach provides the student a cross reference with most of the widely used texts and other educational resources of the school thus providing individualized learning opportunities supplemented by audio instruction and visual aids.

"EDC is a fully integrated educational publisher of supplemental materials for the elementary and secondary school market."

In our opinion, the shares of this highly regarded publisher are moderately appraised in view of the Company's prospects for rapid growth in revenues and earnings over the next several years. We recommend purchase for speculative accounts seeking above average capital appreciation over the long term.

The Company — Educational Development Corp. is a fully integrated educational publisher of supplementary materials, programs and systems for marketing to elementary and secondary schools. The Company creates, produces, manufactures and distributes learning materials which utilize audio and visual aids such as tapes, records, cassettes, films, transparencies and instructional lesson cards.

Founded in 1961, the development division, (Educational Development Company — edc), authored, edited and de-

veloped educational products for distribution by nationally known publishers such as Ginn & Co., McGraw-Hill, Harper & Row and Science Research Associates (an IBM subsidiary). By 1969 the Company was well established as a quality materials developer and a leading innovator in multi-media (utilizing audio and visual instructions to supplement progress textbooks), products which contributed fresh approaches to teaching and learning. In November, 1969, a private placement of common stock in the amount of \$2,150,000 was consummated with 5 institutional investors: Aetna Casualty & Surety Co. (\$500,000) Hartford Fire Insurance Co. (\$500,000), Suez American Risk Capital Fund S. F. (\$500,000), Travelers Insurance Co. (\$500,000), and Midland Capital Corp. (\$150,000). These funds were used to implement management's decision to shift emphasis from "contract products" distributed by other publishers to "proprietary products" distributed by the Company under its own name. The Company (1) recruited a marketing force of approximately 20 experienced salesmen ("educational specialists") with extensive publishing and educational backgrounds; (2) developed an extensive inventory of educational products (primarily instructional lesson cards and cassettes) for mathematics, language, arts, social studies, science and other areas for grades 1 through 8; and (3) expanded production and advertising activities. EDC's success in direct marketing was immediately apparent and was reflected in the sales of \$2.1 million of new products during the first year. Total sales for fiscal 1971 were boosted to \$4,123,439 from \$1,846,669 for the prior fiscal year. Sales and royalties are set forth below by type of product:

	1967	Years Ended February 28			1971
		1968	1969	1970	
Sales and Royalties:					
Basal Materials (Textbooks)	\$241	\$353	\$367	\$314	\$453
Supplementary Materials	859	1,026	1,370	1,393	3,525
Other	80	180	192	140	145
Total	\$1,180	\$1,559	\$1,929	\$1,847	\$4,123
% Increase from Previous Year		132%	124%	(-4)%	1123%

"We recommend purchase for speculative accounts seeking above average capital appreciation over the long term."

EDC now distributes a broad line of supplemental educational materials. The "Continuous Progress Laboratories" and "Audio Reading Progress Laboratories" represent the most promising series of products and accounted for about 50% of sales in fiscal 1971. The "Continuous Progress Laboratories" is a series of 33 multi-level, multi-media programs covering each of the 4 basic disciplines, (mathematics, language arts, social studies, science for grades 1 through 8). The program of instructional lesson cards, workbooks and 260 cassettes is adaptable to either the whole classroom approach or to individualized instruction for remedial or enrichment purposes.

The "Audio Reading Progress Laboratory" is a multi-level, multi-media reading program designed for supple-

platform onto a broader range of left-liberal terrain. He favors cutbacks in Pentagon spending and U.S. troops in Europe, abolition of the draft and amnesty for draft evaders ("I think they've paid—they've gone to jail or into exile"), more Federal effort on behalf of education and mass transit and against hunger and pollution, more young people in government and women on the Supreme Court.

McGovern is no orator. On the platform or television tube, his dry earnestness evokes more of the former history professor at Dakota Wesleyan University than the current Presidential candidate. But he shines in conversation, and even his speeches (unlike Muskie's) are regularly interrupted by applause. His listeners often speak of his "decency"—the word, in fact, has become something of a nettlesome cliché in the McGovern camp, since it crops up so often in remarks such as "McGovern's certainly a decent guy, maybe too decent to be President." He faces the peculiar task of being defensive about his niceness. Not long ago, in a rare sally of humor, McGovern told an Illinois audience wryly: "We have two research people who are compiling a list of my indecencies that should prove I'm pretty balanced."

Staff: But decency does not preclude political savvy, and McGovern has been remarkably astute at laying his campaign's groundwork. He has set up a full-time paid staff of 25 at his Capitol Hill headquarters and stationed an additional 35 salaried operatives out in the field (the largest non-Washington staff of any candidate, aides say). In Wisconsin, he has organized in 60 of the state's 72 counties; in New Hampshire, he has ten full-timers already at work and 30 more (mostly college students) due in January.

The campaign manager is Gary Hart, a 33-year-old Denver lawyer who worked for Robert Kennedy in 1968. He shares control of the operation with

another old Kennedy hand, Frank Maniewicz, Kennedy's press secretary. Other top strategists include John Douglas, assistant Attorney General from 1963 to 1966, and former Humphrey aide Ted Van Dyk, and just last month Richard Dougherty, a New York correspondent for The Los Angeles Times, left his paper to sign on as McGovern's press chief.

Dougherty's is a key job: McGovern's press problem is one of a cluster of difficulties that have bedeviled the campaign so far. Many of the senator's staffers complain bitterly that their man has been ignored by the media, and it is true that he has been caught in a vicious circle peculiar to underdog candidates. The press tends to give the most space to those candidates who do best in the polls, but a candidate generally doesn't start to do well in the polls unless he is reported widely in the press.

Last week the McGovern forces took heart, reported NEWSWEEK's Elizabeth Peer, from what they hoped was a sign that their candidate had finally broken out of his double bind: for the first time, the Gallup poll included him among the Democratic candidates it ran against President Nixon in trial heats, and he didn't do too badly: he won 33 per cent of the vote to Mr. Nixon's 49 (Hubert Humphrey scored 37 per cent against the President's 47 per cent, and both Edmund Muskie and Edward Kennedy racked up 41 per cent to Mr. Nixon's 44). But this good news was dampened by the fact that at the very same time this poll was taken, the Gallup people were also sampling Democrats to see whom they favored for the Presidential nomination, and here McGovern ranked far below the top three with only 6 per cent. And a Harris Survey found that a surprisingly small proportion of Kennedy Democrats, only one in 25, would cast their lot with McGovern if Teddy didn't run; the bulk of the Kennedy votes went

to Humphrey, Muskie and John Lindsay as second choice.

Lindsay himself embodies McGovern's second main problem. The New York mayor is edging closer to open candidacy, and his name on primary ballots would cut into the liberal, youth-and-minority-oriented constituency that McGovern had hoped to hold for himself while Humphrey, Muskie and Henry Jackson battle for the party's middle and right.

Change: Finally, McGovern must face the possibility that the pitch of his campaign is out of phase with the public mood. He seems to be trying to kindle the same sense of urgency and outrage that fueled Eugene McCarthy's and Robert Kennedy's campaigns in 1968. He seems to be trying to reforge the same coalition of young people and minorities that was once vaguely called "the Movement." His billboards in New Hampshire proclaim: "McGovern—If you really want things to change." But it is possible that change has lost its allure, that the Movement has halted, that the old outrage has cooled and that George McGovern is a general trying to fight a new war with the tactics of the one just past.

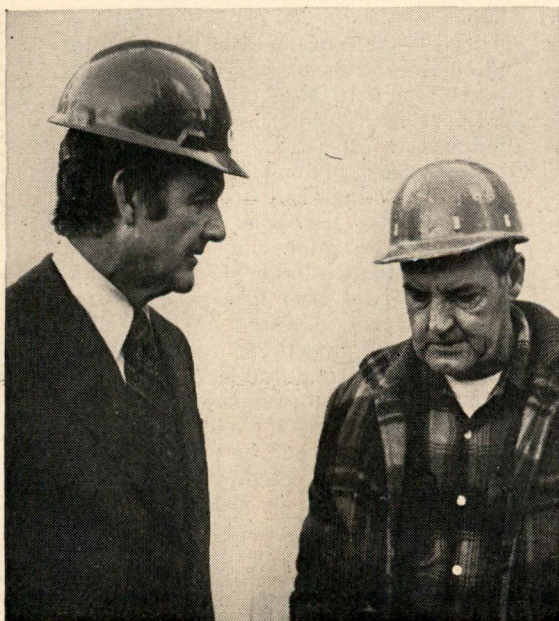
Thus, by conventional calculations, McGovern's chances seem remote. But no gloom infects his eager staff. Their strategy is to make a decent showing in New Hampshire and Florida, enough to prove the race is not a Muskie walkaway and to win the media coverage that is so sorely needed. Wisconsin will be the first real test: McGovern will probably have to topple Muskie in that primary, or else come very close, to build up the momentum he will need for the crucial races in the West. At the moment, Muskie appears to have a solid lead in Wisconsin. But it is still early in the race, and conventional calculations have never been shatterproof. If December forecasts always came true, Eugene McCarthy would have been forgotten in the snows of New Hampshire and Lyndon Johnson might still be President.

PRISONERS OF WAR:

They Also Serve

*Peace on earth is a lie
and death is sadness.
They'll never be back,
for mankind is madness.*

Mrs. William Mullen of Oakland, a 37-year-old mother of two sons, has cause to inscribe her homemade Christmas cards with such unseasonably bitter couplets. Her husband, a Marine pilot downed in Laos almost six years ago, is still missing. The same despair consumes other families of Americans captured or missing in the Indochina war. The government has responded with a hope chest of solicitude—cards from the White House, record albums from the Air Force, potted plants from the Navy and wooden plaques from the Army. At last week's



Photos by Nicholas Sapiena—Rapho Gullumette

Cultivating a hardhat in Illinois



Wally McNamee—Newsweek

Sorting the headquarters mail

national Christmas-tree lighting, Vice President Spiro Agnew lit up an extra tree commemorating the 470 known POW's and 1,005 others missing in action, the MIA's. The gestures only underscored the cruel fact that the Administration appears no closer to getting the captives released—or even learning the fate of the missing—than it was a year ago. Now the President is confronted with an incipient revolt among the prisoners' wives that could have political consequences in 1972.

Bleak: POW specialists worry that the treatment of prisoners has deteriorated. Of the known POW's in North Vietnam, three have been captive for more than seven years, and 74 others for more than six years, but any prospect of release remains bleak. Even the trickle of skimpy, six-line letters from the prison camps has all but dried up. "Some people think this is just the dark before the light at the end of the tunnel," admits an Administration official. "We see it as the dark that anticipates more darkness."

For several years, the crusade to identify POW's and secure better treatment was mounted by the National League of Families of Prisoners and Missing in Southeast Asia, which claims 2,200 members. With unofficial White House patronage, the league assiduously avoided partisan politics. But last May, more activist-minded wives split off to form the POW/MIA Families for Immediate Release. Underlying their break-away was the conviction that the President was exploiting the POW issue to cement support for his Vietnam policies. The families of MIA's or POW's in South Vietnam or Laos were particularly convinced that they would never get their men back until the war stopped. "There was no plan in Vietnamization for the release of prisoners," says Mrs. Mullen, a

national coordinator for the Families for Immediate Release. "As we started to talk, we realized we weren't able to back the President any longer."

Results: The group, which claims several hundred families, has lobbied on Capitol Hill for an end to the war. The Families for Immediate Release has also launched a modest advertising campaign to rival the public-service appeals of the National League. The unabashed goal is results. "As long as the bombs fall in Indochina, my husband's not going to be released," says Mrs. Michael Cronin, wife of a Navy POW.

While league members have flown to meetings on military aircraft, worked in offices donated by the American Legion and had their appeals mailed by the Veterans of Foreign Wars, the Families for Immediate Release has encountered official hostility. Barbara Mullen twice asked Secretary of Defense Melvin Laird to list the organization in newsletters sent out to all the families. The Pentagon turned her down. "While your objective—the release of prisoners of war—is humanitarian," wrote a Pentagon aide, "the efforts of your group are political."

But as the disenchantment spreads among the families, the league itself may be swept along in a new militancy. "If nothing continues to happen, I'll lead the fight to make us political," says Mrs. James Stockdale, whose husband, a captain, has been since 1965 the highest-ranking Navy POW. At the league's meeting last fall, Mrs. Stockdale, a founder of the group, moved for political action but was voted down. "If there's no progress by May," she has decided, "we should make the POW's a major issue, even if it means becoming anti-Administration and supporting a Democrat."

Pressure: Concern grows among the families that Mr. Nixon wants to soft-pedal the POW issue while he pursues his rapprochement with China and the Soviet Union. But the relatives are also conscious that an election year gives them their last and best chance to pressure for the return of their men. "This Administration is not going to forget those men because we're not going to let them," Mrs. James Mulligan, whose Navy husband has been a POW in Hanoi since early 1966, told NEWSWEEK's Thomas De-Frank. "Richard Nixon is a short-timer, and we shall take to the streets if necessary to make sure he doesn't forget."

In fact, an outright rupture between the wives and the White House is possible—although one Nixon aide shrugs: "We don't see it as a major political problem." The once-docile National League, looking ahead to its May deadline, is talking tougher. "You cannot make me believe that this Administration is doing everything possible when it can't even get a complete list of prisoners from a country the size of Missouri," argues Mrs. Wilmer Grubb, the national coordinator and the wife of a captured Air Force pilot. "Everything possible is not enough. We want more."



Henderson: Leaving with a jolt

MY LAI:

The End of the Affair

After 62 days and 6,000 pages of testimony from 106 witnesses, the court-martial at Fort George Meade, Md., of Col. Oran K. Henderson—the last and the highest-ranking officer to stand trial in connection with the My Lai massacre—finally ended last week. The lean, 51-year-old career officer had been charged with dereliction of duty in failing to properly investigate the killings, failure to report a war crime and false swearing before an Army investigative panel. But the jury of two generals and five colonels took just three hours and 57 minutes to acquit Henderson on all charges—and with that verdict, the Army closed its judicial books on My Lai.

The marathon trial—the sixth resulting from the My Lai incident and the fifth to end in acquittal—matched in length the record court-martial of First Lt. William Calley, who was convicted and sentenced to life imprisonment last April for the murder of at least 22 noncombatants in the March 16, 1968, assault on the village. (Calley's sentence has since been reduced to 20 years.) The Henderson trial revealed nothing about the events of that day that had not been told, in grisly detail, at the earlier trials.

Case: The prosecutor's main thrust was that Henderson knew "beyond question" two days after the episode that a massacre had occurred. Maj. Carroll Tichenor, 32, based his case primarily on testimony from former members of a helicopter scout company at My Lai that day who said they had reported indiscriminate killings. The colonel, Major Tichenor noted pointedly, was a much-decorated veteran of three wars who had taken over command of his brigade only a day before the assault—and he had already been recommended for promotion to general. "If the reports... were true," the prosecutor stated, "his own career was finished." Accordingly, Tichenor declared, Henderson conducted



James D. Wilson—Newsweek

Barbara Mullen: Bitter couplets

Influence of U.S. power

Graham Thompson; Fulbright

Indonesia nationalized Shell but not Standard

Iran removed BP for U.S. firms

Algeria nationalized French; now Esso moving in

Libya little BP & Occ.

Esso doing fine!

Michael Tamm, ^{Int'l.} Pol. Ec. of Oil & the Underdev. Countries
 Boston: Beacon Pr. '69.

p. 42

1967 data from Fortune

<u>Co.</u>	Rank by <u>Sales</u>	<u>Profit</u>	<u>Assets</u>	Net Assets
Getty St.	2	2	1	Even higher, but no co. data given }
Mobil	6	3	4	
Texaco	8	5	5	
Gulf	9	6	6	
Amoco	12	7	11	

These 5 have 20% assets of 100 largest cos., & 25% net assets. ~~7th~~

There are also:

S.O. Ind.	12	12
Phillips	18	20
Cont.	21	
Union	24	
Getty	33	
Seam	35	
Sinclair	44	
Marathon	56	
Sinclair	44	
Getty	33	

2

Shell, w. assets = \$13b, is largest corp. outside U.S.

p. 43 U.S. overseas direct inv.

Book value, end '66, \$55b.
Petrol was 30%.

In underdev. countries, petr. was c. 40% U.S. direct ~~inv.~~ investment,
but gave 60% of the earnings. Source: "SCB."

'65, return on U.S. petrol. inv. in underdev. countries
averaged 20%. In Middle East, 55%. --- SCB.

Due to undervaluation of reserves.

p. 44 Large net outflow of cap. from mid east oil cos,
say Issawi & Yegorich, '62. p. 108

p. 45 These large earnings are alleged to help home
country's balance of payments --- & thus be encouraged by
home country. (sounds to me like another widows, orphans, &
nat. defense legend contrivance.)

✓ Chase Manh. Bank, study of U.S. "oil balance
of payments," for '64. (NY: Oct. '66). We import
oil; but the Cap Acct shows:

Inv. inc	\$1.9b
less Δ inv. abroad	.9b
Net inflow	1.0b

p. 47 Chase projected net inflow to \$2.36, '75.

(I suppose they can repatriate bcs. they have other
res. shelter, don't need that.)

Oil cos. can get help of U.S. by pleading need to
strengthen balance of payments.

Here is quite a point to stress about
resource-intensive overseas holdings. You can afford to
import a lot if most of the money comes back in
profits. I.B. is very sensitive to this. Suez closed
in 6-67; devalued £ in 11-67.

(Note: re impotence of NEI, Shell is bigger
than BP, 3x bigger. Shell has always been NEI-oriented.)

✓ p. 52-53, long quote from James Loftis, U.S. D of S.,
1945, on using D. of S. to acquire new territories.

✓ p. 118 ~~Bank refuses to lend~~ World Bank refuses to
lend for any govt. oil opus. in UDCs. (i.e. it only
finances central!)

✓ p. 390 Ex-Im Bank refused to finance export of exploring
& refining
equipment. to govt. owned opus. Late 60s, due to Soviet compen,
began to do so (at least refining equipment.)

pp. 130-31 World surplus of oil.

7 major control 75% non-comm. oil reserves, or 75×3006 bbls., have $R/O = 45$, vs others, $R/O = 24$.

Due to surplus, their prime motive in exploring is preemptive. "... a co's objective must be to max. its overall worldwide profit, and (that) this may require holding an area with the minimum expenditure." - E.N. Overy,

"The Odds in Oil Exploration, paper presented at the ECAFE Symp. on the Development of Petrol. Res. of Asia in the Far East, 3rd Sess., Tokyo, 11-65, p. 17.

p. 131. 1947-62, cap. exp. for oil expln. non-comm. world (NCW) = \$13.56

73% of this in U.S.

6

Canada

1.2

Venez.

3.1

Mideast

1.8

Far East

2.9

Africa.

- Claude Berriz.

(As the great "inv." we have over seen not due to much expln.!)

p. 311 Iraq, revn., 7-14-58, led by Kassim.

✓ U.S. occupied Lebanon, to prevent spread ~~to~~ of revn. to Jordan, which had a kind of union w. monarchial Iraq.

Kassim said he wd. not touch IPC, & Wash. said it wd. not occupy Iraq "as long as the rev. gov. in Iraq respects Western oil interests." says Harvey O'Connor, World Crisis in Oil, '62, p. 312, but whom is he citing?

(IPC is Iraq Pet. Co., a consortium of BP, Shell, Jersey, Mobil, & CFP.)

In '61, negotiations collapsed & Iraq seized the unused IPC concessions — they had entire country, from '25, still unsettled, '69 — (but I judge no big devt.. All IPC wants is holdg action, anyway).

✓ p. 324. In Iran, it's "the 1,000 families".

They had to pay more taxes when Abadan was boycotted.

✓ So they helped CIA throw out Mossadegh. U.S. firms then got 40% of a new corp. that replaced Anglo-Iranian.

p. 349 1960-61 was high water mark for public oil dev. in UDCs.

In '60s, reaction to Castro has moved Lat. Am. to the right. '61-'64, 10 rt. wing revns. in L.A.

p. 350 ff. Argentina. ~~After~~ Had a public oil Co. ^{from 1922, 2PT.} ~~perhaps~~

~~largely to meet sloganizer demands.~~ Series of rightward steps &

finally a dictatorship of mils. U.S. oil cos. move in.

p. 350. ~~Another~~ Pemex & Petrobras one 2 other substantial

cos. 7 others are sham to assuage sloganizers.

'58, Frondizi was probably bribed, & gave very favorable concessions to U.S. cos.

'63, new Pres. Arturo Illia cancelled contracts as fraudulent. U.S. Govt. pressured Illia not to do this.

p. 354 Threatened cut off fu. aid, & prot. excl. Hickenlooper Ann.

~~MA~~ aimed at Arg. & Peru. N.Y. Times, 11-11-63.

Cos. finally got negotiated settlements. \$200m. ^{U.S. used aid} ~~disturbances to course~~ -- N.Y. Times, 2-20-65.

p. 355, '66 a mils. coup, Argentina, let U.S. cos.

back in.

pp. 359-60 Vargas, resigned & suicide '54, & Boulos, overthrown

'64 were pro Petrobras, but the U.S. cos. gotten.

Soulat had taken some Soviet oil, & threatened expropriation plus Hanna's iron ore. Also did take IT&T, '62.

p. 362 Colombia, '65, U.S. oil also moved in.

And Dominican Rep., '63, Dictator Bosch.

p. 363 Ghana, Nkrumah ~~planned~~ let in Soviet oil.

✓ Overthrown, '67 — milky successors ~~got~~ gave concessions to U.S. cos., got credit from IMF etc.

p. 363-64 Indonesia, Sukarno was going to nationalize, got overthrown. (Sumatra, Caltex produced 70% of national output.)

In Indonesia, you don't even know which minister to sign with. "Free-wheeling" Gen. Suharto, signed offshore concessions. Cancelled by his superior, the minister of mines: but upheld by Gen. Suharto, for whose army the oil money is directly earmarked. p. 364 from WSJ 4-18-67

Tanzer stresses oil - importing UDCs a lot. They consume oil, & U.S. corps. want to have those mkt. — and also prevent their developing their own local, indep. oil prodn.