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memo	Mary to Walter with attached transcript of telephone call Deputy Secretary of Defense Steve Early to Senator Johnson, 9/20/50, and carbon copy of telephone call	10/18/50	C

FILE LOCATION

Pre-Presidential Confidential File
"Preparedness Subcommittee - Rubber"

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United States Senate

MEMORANDUM

Seems to me some
of Larson's arguments
re small business,
allocation, ^{etc} which is not
in effect is fuzzy
& needs analysis.
His remarks on
stockpiling O.K. JC

Mr. Walter Jenkins

Enclosed is a copy of Mr. Larson's
statement before Senate Small Business Comm
Re - Rubber.

You will recall that the Senator
wanted to see the statement.

Please note that this statement was
made on June 29. and it called
for additional synthetic rubber and
more allocation for small rubber
concerns -

Thank you
Att Greene

Processing Note:

2/25/2025

There are 2 copies of the following five-page document. Only one copy has been scanned.

Robert Mar

Digitization Technician

STATEMENT OF JESS LARSON
ADMINISTRATOR OF THE GENERAL SERVICES ADMINISTRATION
BEFORE THE SELECT COMMITTEE ON SMALL BUSINESS OF THE SENATE
JUNE 29, 1950

I wish to preface my remarks by making it clear that I am not a technician in the field of rubber production or the consumption and distribution of products made therefrom. The observations which I will set forth herein are based upon my general knowledge of the rubber situation as I see it in carrying out my duties as Administrator of General Services.

In carrying out these duties I am confronted with two aspects of this program. The first concerns my responsibilities to guide the procurement policies of the government and in so doing to see to it that small business has an opportunity to obtain its fair share of the government's procurement programs. The second phase covers my responsibility to purchase crude natural rubber for the strategic and critical materials stockpile.

In regard to the first-mentioned responsibility, I wish to point out that the purchase of automobile tires and tubes constitutes by far the largest item of rubber consumption with which the government is concerned in its procurement activities. The purchase of these items has long troubled government purchasers because of the lack of testing procedures. Therefore, they have followed a procedure which

calls for negotiating schedule contracts. Such contracts provide that the contractor will furnish to the government agencies, upon their request, tires and tubes on the basis set forth in his offer and acceptance by the Government. This has not been satisfactory either from the standpoint of the government or the contractor. Insofar as the contractor is concerned he does not know what the volume of buying is going to be and as a result of the lack of testing procedures the government can not require agencies to purchase from the lowest bidder because performance standards cannot be determined.

Nevertheless, it has been historically true, I believe, that the smaller rubber companies have submitted the lower bids on these contracts and, since the inauguration of the government's synthetic rubber program following the close of the war, all contractors including these smaller producers have had before them in figuring their quotations the government's fixed price of $18\frac{1}{2}\phi$ on synthetic rubber. This has generally reflected a lower and more satisfactory price to the government.

Recently a campaign has been going on to encourage all agencies of the government including the military to procure their tire needs from these schedules and to favor the low bidders. Several large orders have recently been directed to smaller producers partly as a result of this campaign. Furthermore, I have been informed that the larger rubber companies have either refused to participate in filling bid offerings proposed by the Military Establishment or they

have quoted prices considerably higher than those heretofore quoted on Federal schedules by the smaller rubber companies. This all reflects the chaotic situation which has been brought about by the tremendous increase in the price of crude rubber and the turning of all rubber producers to synthetic at the government's pegged price.

It is my personal feeling that since these plants are the property of the United States Government, in allocating their output consideration should be given to the requirements of the government in order that these requirements not only be promptly filled but that the cost to the government is in line with its own low fixed price to the users of its synthetic produced from the Rubber Reserve plants. In other words, I feel that the smaller rubber companies who have generally created the competition that has made it possible for the government to have the advantage of lower prices in rubber products, should be given some sort of priority in filling current government orders.

I think that the above program would indicate that the Executive Branch of the government is doing something concrete to carry out the mandate of the Congress set forth in Public Law 152, First Session, Eighty-first Congress, which requires that the needs of small business be taken into consideration. This is about as far as I could go in setting forth my views on this subject insofar as they officially

relate to my duties in connection with procurement. However, I could not pass up this opportunity to point out to this Committee that in my opinion the system of allocating synthetic rubber on the basis of past use is highly prejudicial to small business. On the other hand, the larger companies, who because of the very size and extent of operations over the period of time used as a base will continue to receive sufficient synthetic rubber from the government's plants to permit a continuance of operations on a relatively large scale. Therefore, I think that small business could be helped if a minimum allocation were established for all producers based perhaps on the average capacity of the small producer.

I am not familiar with the statistics and, therefore, the example I will cite is purely a hypothetical one. But let us say we fix the product limit for the allocation of synthetic at three thousand tires per day. We would assure allocation to all companies up to this limit. Production beyond this limit would necessarily depend upon the ability of the producer to obtain crude natural rubber at a higher price and, of course, the end product very likely would reflect this additional cost. In a field where the large producers have brought about pricing situations resulting from their ability to produce at a rapid rate, reductions of allocations of synthetic rubber naturally force small producers to a much narrower margin, and obviously, they cannot reduce their production to the same extent as the large producers and still remain in business.

My other official responsibility which bears upon this same subject as I have mentioned above is that of stockpiling crude natural rubber. In this connection, I deeply feel that the government should take immediate steps to substantially increase the volume of synthetic rubber production. Unquestionably such an increase would tend to alleviate the situation I have discussed heretofore and, in connection with the stockpile it would, I firmly believe, quickly stabilize the price of crude natural rubber at a lower level and thus permit the government to complete and maintain its stockpile at a reasonable cost.

good It has been pointed out that considerable expense would be involved in opening up additional standby units of synthetic rubber production. However, in evaluating this consideration I wish to point out again that stepped up synthetic production should result in considerable savings to the government in effectuating the stockpiling program; facilitate the acquisition of natural rubber for the stockpile; place the standby plants in operation with the resulting benefits to our national economy and add immeasurably to our military strength.

The White House
Washington

The Update to the President

August 30, 1950

Dear Senator Johnson:

Reference is made to your letter of August 22 regarding the rubber situation in which you recommended a significant stock pile acquisition program specified that 1. the RFC reactivate all government-owned synthetic rubber-producing plants including feed stock facilities; and 2. allocation specifications and inventory the list be used with it and that the greatest amount of natural rubber be conserved for stockpiling. The entire rubber problem has recently been _____ invested by the chairman of the NSRB who is one of the 16, made detailed recommendations to the President covering all major aspects of the study. These recommendations were approved by the President on the same date and per requested the several agencies concerned to take the necessary actions to carry out the recommendations.

As you no doubt know, on Aug 25 the Dept of Commerce chosed regulations limiting total new rubber consumption (exclusive of mile carry orders) by each rubber user during the last 4 months of this year to 4/12ths of 1950, and requiring that consumption of natu al rubber not exceed that limit less the sum of: a) GR-~~S~~ and butyl made available by the government and b) synthetic rubber from other sources.

Although it is recognized that the system of control for the last 4 months of this year would not be an adequate method for a longer period or for a more stringent reduction in new rubber consumption, it can be instituted more quickly than a more delayed controls system and this results in immediate gains for the stockpile.

During this 4 month interval, however, the Dept of Commerce will surely delivered allocation, specification and inventory control regulations tp assure a maximum availability of natural subber for the stockpile, maximum quality of product with the available supply of rubber and an equitable distribution of this supply. These will include prohibition or reduction of non-essential and relatively less effectual uses of rubber.

The RFC is now in the process of reactivating all of the government-owned peat-base butadiene plants and capolzmer plants not suggested to authorizations of the butadiene that can be produced in these butadiene plants. Reactivation of the alcohol-base facilities at this time appear to be unnecessary and, in fact, undesirable in view of the problems involved. First, rubber produced from alcohol would be very costly as compared with rubber produced fr om peat fat stock even with alcohol at current prices. Moreover, is a substantial increase in alcohol prices could be anticipated if production of synthetic rubber from alcohol were undertaken. Second, and most important is the problem of feed/fat stock available. Reactivation of the alcohol-base Texas plants would create a large new demand for alcohol. To meet this demand would require sharp cattlemen not only of liquor production but of other industrial uses of alcohol. Additional production of synthetic rubber would also require additional styrene-base plastics than is contemplated for rubber products.

It is excellent however that all practicable steps short of actual reactivation be taken now. The plants are currently being maintained in such physical condition that they could be reactivated within 90 days. The limiting factors on reactivation are likely to be not the physical task of reopening the plants but the assembling and training of technical cracks (clerks?) and the completion of arrangements for feed stock supplies. In the advent of serious emergency it is assumed that the later problem could be handled quickly through use of prior tax and ~~amortization~~/ allocations.

The problem of assembling technical staff for everything would remain. The RPC is therefore arranging for immediate designation of the operators of the alcohol butadiene plants and for a training program to prepare technical personnel to operate the plants should reactivation become necessary. Such a training program will probably include actual reactivation of one of the 7 units in the alcohol butadiene plants and operation for such period of time as may be necessary.

None of the above information is classified and may be used in any way you see fit.

Very sincerely yours

John R. Stallman/Stellman?

Hon Lyndon B. Johnson
Senate Office Bldg
Washington, D.C.

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✓ 30, 1950

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United States Senate
Office of the Democratic Leader
Washington, D. C.

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Hyndman Johnson
U. S. S.

To: He opened only
By: Sen. Johnson
Walter Jenkins
D. S. R. R. R.

COPY

August 25, 1951

Dear Stu:

I am terribly disappointed about this interview. I think it will be a great disservice to the public interest. The only purpose the argument can serve is to revive the attempt of certain persons to take away from the people the essential national security rubber plants they bought with their money and turn them over to the rubber industry.

I am terribly sorry that your name is included in any article in connection with a program of this kind.

Sincerely,

Lyndon B. Johnson

Honorable W. Stuart Symington,
Reconstruction Finance Corporation,
Washington, D. C.

lbj m
corres

(Gene, do you have some kind of a Symington file you can put this in instead of sending it to the committee?)

Plan to Turn Over US Rubber Plants

Expansion May Boost
Prices, Symington Says

Washington Bureau

WASHINGTON, Aug. 21.—Administrator W. Stuart Symington of the Reconstruction Finance Corp. said today he "hopes to have a plan as soon as possible" to turn over the Government's synthetic rubber plants to private industry.

He told newsmen he is working on such a plan with leaders of the rubber industry, but said it is up to Congress to decide whether the Government should retain ownership during the present emergency, the law under which RFC operates the \$750 million industry expires next July.

Doubts Piecemeal Sale

Symington said he doesn't think the plants "can be sold piecemeal." Any plan developed, he said, should provide for selling raw material feed-stocks plants along with those making the rubber. He said a disposal plan would involve safeguards to prevent a private monopoly in synthetic rubber.

President Truman has asked the National Security Resources Board to canvass administrative agencies for recommendations on disposing of the industry, which the law requires be put before Congress next January. The President asked for disposal authority two years ago, but Congress turned him down.

Any disposal plan, Mr. Symington said, must give small companies

(Continued on Sixth Page)

Plan to Turn Over US Rubber Plants

(Continued from First Page)

and others not already involved as contract operators for RFC, "equal opportunity" to buy the plants. RFC, he added, wants to sell the plants at a price "under which private industry could operate at a profit and yet fair to the taxpayer."

Price to Rise

Any plants sold, he said, would "certainly" be subject to a reserve clause under which the Government could take them back in times of emergency. Mr. Symington pointed out, however, that a number of industries operated their own defense plants during war.

He said the Government is now selling about \$450 million of synthetic rubber a year and that current expansion plans may mean a price increase because of limited supplies of cheap raw materials. He said the price will come down later as production of oil extended synthetic rubber is increased.

Mr. Symington disagreed with some industry spokesmen who have called for a halt to exclusive buying of natural rubber in order to get the price down. He said he did not think a price drop in natural rubber would result because "you don't get true costs in an expansion program."

He expressed confidence that current improvements in synthetic rubber will result in a price which will be permanently competitive with natural rubber, which is still preferred for some uses. Synthetics now are "equal or better" than natural rubber in almost all uses, he said.



THE SECRETARY OF COMMERCE
WASHINGTON 25

The Honorable Lyndon B. Johnson
United States Senate
Washington 25, D. C.

AUG 11 1950

Dear Senator Johnson:

In accordance with your request of July 29, I am herewith presenting data with respect to the supply of and requirements for new rubber.

The natural rubber supplies for the period are extrapolated at approximately the rate during January - June 1950, since under present uncertain and unstable conditions firm estimates are impossible. In the case of synthetic rubber, the figures represent present production schedules. The consumption estimates were recently submitted by industry to the government, but with qualifications, since there are so many imponderables, including the volume of military orders; advance estimates of U. S. consumption in the past have seldom been close.

The data represent estimates for fiscal year 1951 and the first half of fiscal year 1952. You will note that the net figure in each period represents the rubber that would be available for stockpile and this may be compared with stockpile targets with which you are familiar.

If I can be of further service I hope you will feel free to call upon me.

Sincerely yours,

Charles Sawyer

Secretary of Commerce

Attachment

ESTIMATED AVAILABILITIES AND REQUIREMENTS FOR NEW RUBBER FISCAL
YEAR 1951 AND FIRST HALF OF FISCAL YEAR 1952, AND NET AVAILABLE
FOR STOCKPILE (Long Tons)

	1st Half F/Y 1951	2nd Half F/Y 1951	1st Half F/Y 1952	Total For Period
<u>Supply</u>				
Natural rubber (available to U. S.)	390,000	390,000	390,000	1,170,000
GR-S	204,000	300,000	300,000	804,000
Butyl	31,200	37,500	37,500	106,200
Other (including imports)	<u>48,000</u>	<u>49,000</u>	<u>49,000</u>	<u>146,000</u>
Total Availabilities	673,200	776,500	776,500	2,226,200
<u>Estimated Consumption</u>				
Maximum available for stockpile	128,200	208,500	255,500	592,200
Inventory replenishment to 90 days		56,000	56,000	112,000
Industry potential capacity	634,000	634,000	634,000	
Excess over estimated consumption	89,000	56,000	113,000	268,000
Minimum available for stockpile	39,200	86,500	86,500	212,200

Source: Rubber Division, Office of Industry and Commerce, Department of Commerce

August 8, 1950

22 September 1950

Dear Senator Johnson:

In my letter to you of 22 September 1950, I indicated that we would send to you in a few days our proposed form of answer for Question No. 3 in your letter of 13 September 1950 to the Secretary of Defense. Since that time, we have had conferences at which all of the Services have been represented by an officer familiar with training programs and policies. These conferences have convinced us that it is not feasible to establish a master format which could be used to advantage by each Service in answering Question No. 3. The differences in the programs envisaged and the problems faced by each Service are sufficiently substantial so that the presentation of the training picture to your Subcommittee in a common form would require oversimplification. Consequently, we are planning to have each Service submit separately an explanation of its training periods or cycles. These separate explanations will be submitted to your Subcommittee along with the rest of the report, and they should, when taken together, provide you with an answer to Question No. 3, which is sufficiently detailed to be of value to your Subcommittee.

After conferring with the appropriate representatives of the various Services as well as with the representatives of General Services Administration, we have adopted the enclosed form as a basis for answering Question No. 4. I might add that the GSA representatives have been most helpful in furnishing information in connection with this problem.

Sincerely yours,

F. Shackelford
Department Counselor

Honorable Lyndon B. Johnson
Chairman, Preparedness Subcommittee
Senate Armed Services Committee
United States Senate

CC Secretary of the Army
Department of Defense Liaison
Preparedness Subcommittee Liaison
Navy Department Liaison
Air Force Department Liaison
Administrator, General Services Administration

DISPOSITION OF INSTALLATIONS

NAME OF INSTALLATION	TYPE	DATE ORIGINALLY DECLARED EXCESS	DATE OF DISPOSITION	TRANSFeree	LEASE TERMINABLE	RECAPTURE CLAUSE

COPY

Received from Shangri-Lu

August 24, 1950

Mr. Stuart Symington, Chairman
National Security Resources Board
Old State Department Building
Washington, D. C.

Dear Mr. Chairman:

At the meeting held with you on Friday, August 11, you requested that the undersigned, on behalf of the Rubber Manufacturing Industry, present to you their recommendations regarding the government's synthetic rubber program. Following study and investigation, we recommend that these steps be taken immediately:

- 1) Reactivate all GR-S copolymer plants and put them into at least partial operation.
- 2) Reactivate and/or provide the butadiene facilities necessary for potential full operation of all copolymer plant capacity. The cheapest and best long range means of securing additional butadiene should be employed. Final decision as to method should depend on results of studies of the following:
 - a. Bottleneck elimination in existing petroleum butadiene plants which might have the effect of increasing output to some degree.
 - b. Possible conversion of existing alcohol butadiene plants to permit the utilization of petroleum derivatives.
 - c. Construction of a new petroleum butadiene plant, employing butane sources which we understand are available and unused, thereby avoiding conflict with the aviation gasoline program. This we strongly urge.
 - d. The partial reactivation of an existing alcohol butadiene plant, so that rapid expansion of output could be achieved if an early emergency required. This is the least desirable choice because of the excessive cost of the resultant butadiene.

- 3) Expand total GR-S output to a 60,000 long ton monthly level as soon as petroleum butadiene is available as outlined in 2) a, b, or c above.
- 4) Increase capacity for the superior cold rubber to 50% of the total dry GR-S capacity, through making minor capital expenditures in existing facilities.
- 5) Expand GR-S latex capacity from the present level of 35,000 long tons a year to a level of 50,000 long tons a year, and require that cold rubber latex constitute 50% of such total capacity.

Our reasons for these recommendations are:

- 1) In World War II, our production of synthetic rubbers reached a maximum rate of about 1,000,000 long tons a year. The capacity of all synthetic rubber facilities, public or private, that are presently active, or are in process of reactivation, is under 750,000 long tons a year. In an all-out war, our expanded civilian economy and our military needs, excluding requirements of allies, would attain minimum essential levels of 1,000,000 to 1,100,000 long tons of new rubber a year. The program of expansion outlined in our recommendations would provide the necessary emergency insurance and flexibility. Any excess of synthetic rubber production over consumption requirements could be utilized as outlined in 2) and 3) below.
- 2) Total inventories of synthetic rubbers, government and private, particularly the government-produced GR-S and butyl, are barely in excess of one month's current consumption. Inventories of GR-S should be at a minimum level of 200,000 long tons to meet emergency needs in excess of those that could be filled from current synthetic production. These inventories, which represent less than one-half year's supply at contemplated 1951 usage levels, should be built as quickly as possible by operating reactivated synthetic rubber plants at levels substantially above going synthetic rubber consumption rates.
- 3) The sale of government-produced synthetic rubber to friendly countries abroad would utilize any synthetic rubber capacity in excess of that required for U.S.A. consumption and inventory building. It would be attractive to foreign consumers because of the lower cost of synthetic rubber, and would hasten the attainment of our natural rubber stockpiling objective by decreasing the demand of foreign manufacturers for short supplies of natural rubber.

- 4) It was necessary, in World War II, for the United States to supply synthetic rubber to allied nations that were cut off as we were, from 90% of the world's natural rubber producing territories. Future non-availability of natural rubber, whether from capture of the rubber lands by enemy nations, civil disturbances, sinking of transport facilities by enemy submarine and plane action, or other emergency, might well require renewed distribution of American-produced synthetic rubbers abroad.
- 5) Strikes, sabotage, explosion, bombing, or other such emergencies in any one of the presently operating or authorized synthetic rubber facilities would be disastrous to either our preparedness effort or to an all-out war program.
- 6) Needless waste of rubber, textiles, other materials, and manpower will occur if the quality of rubber and products, particularly truck tires, has to be degraded substantially, through drastic reduction of natural rubber usage, during the period of natural rubber stockpile building. Cold rubber, for many uses, is the best alternative material to natural rubber. Sufficient quantities must be provided to insure best possible end-product quality. Greatly increased flexibility in synthetic rubber production will result from cold rubber capacity expansion since cold rubber capacity can be used for the production of hot rubber as well.

In the light of the probabilities before us, our synthetic rubber suit fits far too tightly. Our recommendations are designed to achieve the necessary flexibility to guard our national security and essential civilian needs in a period of preparedness efforts, and to provide insurance against the imminent risk of a very hot war, indeed.

Very truly yours,

/s/
A. L. Viles

On behalf of the National Security Policy
Committee of the Rubber Manufacturing Industry

ALV:EM

cc: The Honorable Charles Sawyer,
Secretary of Commerce
Mr. Hubert E. Howard, Chairman, Munitions Board
Mr. C. B. Hadlock, Executive Director, Office of Rubber Reserve

F/Y ending June '51:
(Thousands of longtons)

Total rubber available to U.S. 1,446.8
(Natural 764, GR 554.3, Special 139.6)

Less minimum stockpiling 260.0

Less ~~present~~ military orders 1,186.8

60.0

1126.8

Estimated civilian availability

1951 under present Rubber Order 1111.0

Available to stockpile, increased
inventories or increased civilian
consumption.

15.8

If remaining 80,000 L to BR S
were activated promptly

+ 33.3

49.1

$$\begin{array}{r} 764 \\ 389 \\ \hline 375 \end{array}$$

$$\begin{array}{r} 1080 \overline{) 3751347} \\ \underline{3240} \\ 5100 \\ \underline{4320} \\ 780 \end{array}$$

$$\begin{array}{r} 86\% \quad 90, \\ 6 \overline{) 180} \quad 77 \\ \underline{12} \quad 100 \\ 13,000 \quad 100 \\ \hline 90 \overline{) 130} \\ \underline{90} \\ 400 \end{array}$$

$$65 - 35$$

~~1,080,000~~
~~60,000~~

54-46

~~1140.~~

1080) 504 | 46
4320
7200 6480
764
260

1446.8
260.

~~11868~~

504 natural

504) 1043 | 48
5040
4188
8520

543 BR-S

33
1080

Ratio of BR-S to total natural plus BR-S
if 760 is stockpiled 52-48

Ratio same if 80,000 more
reactivated

~~48~~
~~19~~
~~5~~
~~139~~

Ratio of BR-S to total natural plus
BR-S if 389 ^{could be} stockpiled
and if 80,000 more were reactivated

COPY
FISCAL YEAR ENDING
JUNE, 1951
(thousands of tons)

Total Rubber available to U.S. (Natural 764, GR-S 543, Special 139)	1,447	1,447 1,480
Less Minimum Stockpiling	<u>260</u>	<u>389</u>
Less Military Orders	1,187 <u>60</u>	<u>1,058</u> 1,091 <u>60</u>
	1,127	<u>998</u> 1,031
Civilian availability 1951 under present rubber order	<u>1,111</u>	<u>1,111</u> 1,031 <u>998</u>
Available to Stockpile, Increased Inven- tories, or increased civilian consump- tion	16	0

TURNER PROGRAM

1. Stockpile the lower figure
2. Allow industry to continue to make a quality product. (Ratio would be 52% synthetic and 48% natural)

JOHNSON PROGRAM

1. Stockpile a minimum of 389,000
2. Reactivate balance of GR-S capacity (80,000 tons)
3. Require industry to produce an adequate, serviceable product. (Ratio 65% synthetic and 35% natural)

(Term "synthetic" as used above is GR-S only.)