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Interview with

HOWARD YERGIN

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Caltex Oral History Project

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Dr. Marcello: This is Ron Marcello interviewing Howard Yergin for the Caltex Oral History Project. The interview is taking place on January 23, 1986, in Dallas, Texas. I'm interviewing Mr. Yergin in order to get his reminiscences and experiences concerning his long-time career with the Caltex Petroleum Corporation.

Dr. Marcello: Mr. Yergin, to begin this interview just very briefly give me a biographical sketch of yourself. In other words, tell me when you were born, where you were born, your education--things of that nature.

Mr. Yergin: I was born in New York City, up near the Hall of Fame, in fact, on February 17, 1921. I was the fifth among six children in the family. My father was a Presbyterian minister; my grandfather was a Presbyterian minister. I didn't follow in their footsteps, obviously. I grew up in New York basically, through high school.

Then I went to the Midwest to the College of Wooster for my liberal arts education, and I was planning to go on a program which would have been three years at Wooster, two years at MIT, and get a combined B.A./B.S. degree with an emphasis on electrical engineering. But early on at college, I realized that engineering wasn't really what I was interested in; it was the mathematical side of it that attracted me more. So I decided to change to accounting, and then I intended to go the same way--three years at Wooster and two years at Columbia to get the accounting. But the war came along, and I decided I'd better finish and get my bachelor's degree because I knew I wouldn't be able to finish the other. So that's what happened. I went into the war. I spent three-and-a-half years, and came out as a captain in the Army Airways Communication System.

Just prior to the war, in fact, I had worked with a public accounting firm in New York, and I rejoined them after the war for just a short while until the Columbia graduate school commenced its fall session. Then I took a two-year M.B.A. at Columbia, majoring in accounting.

About three or four months before completing that M.B.A. course at Columbia--this is now the beginning of 1948--I made contact with Caltex, which ultimately resulted in my joining Caltex right after getting my degree at Columbia.

Marcello: How did you learn about Caltex?

Yergin: That's interesting because while I was at Columbia, my wife, who was a registered nurse, was working in the New York hospital to help pay expenses. It was Women's Hospital in New York on 110th Street, West Side. She was, as I say, a nurse. She got acquainted with a woman who was the social service worker there at the clinic, and they frequently had lunch together and chatted about things. Her name was Helen Martin, and she, at one point, finally told Martha that she was interested in the fact that I was taking accounting at school because her husband's firm was looking for people to send overseas, among them being accountants. So she gave Martha his business card, and she brought it home to me. The business card said, "S.F. Martin, Vice-President, California Texas Oil Company, Limited." At that point, I hadn't a clue as to what California Texas Oil Company, Limited was, but I looked it up in the Columbia library and discovered it was a subsidiary of the Bahrain Petroleum Company, Limited, a Canadian company. There wasn't much more than that about it, except that it was all foreign business.

At any rate, I decided there was no harm in going down and talking the gentleman. I did; I talked with him. We had a good chat, and he quickly introduced me to the controller of Caltex. It was obvious that I was hired, if I wanted the job, right then and there. But having been overseas in the Army, the last thing I had in mind was to go back overseas again, plus the fact that I was intending to complete the New York certified public accounting requirements, among which was the requirement to work in public accounting for a period of time. But after going home, talking to my wife, and thinking it over some, one of the reasons that persuaded me to go with Caltex was, firstly, I found that the C.P.A. requirement could be met by a combination of public and private accounting. More importantly to me, really, was that I had just been spending a couple of years at Columbia with the top authorities in accounting, talking high-powered accounting theory--balance sheet concepts and so on--and I realized that if I went back into public accounting, I would be adding up columns of figures and reconciling bank accounts and so forth for some time before I ever got around to the high theory of accounting. So the Caltex offer was attractive from the standpoint that I knew that I would be a manager right away and be able to use these things.

I agreed to go with them, and, in fact, since I was about to start writing my master's thesis at the time, I talked with Sid Stacy, who was the controller, and decided to write a thesis--which I did write--on "The Accounting Significance of Foreign Exchange Restrictions in Consolidation Accounting." This is a paper which, I confess, I don't think

I have reread to this date, and I would be too cowardly to read it because I knew nothing about it; and my advisors assured me neither did anyone else, so I felt free to write. At any rate, I did get the degree, and I joined Caltex within a few months after that in June of 1948.

Marcello: Was there an understanding, more or less, from the beginning that you would be working for Caltex overseas?

Yergin: Yes, it was clear that they needed people--needed me. Initially, they said either India or China, but it quickly narrowed down to China, so I knew I was being "shanghaied" right from the beginning. In fact, I was only in the New York office in the Chrysler Building in 1948 for about two weeks before we started for Shanghai, by train across the country and then by boat from San Pedro, California. We were twenty-one days without sight of land on a Norwegian freighter to Manila. We spent five days there, and then we went on to Shanghai.

Marcello: What was your wife's reaction to the experience of serving overseas?

Yergin: Well, she had experience because I met her overseas. I met her in Cairo, Egypt, in fact. She's a Georgia gal, but she was an Army nurse and came over in 1945 as a replacement nurse. I met her right after she arrived in Cairo. So she had some experience being abroad. It didn't astound her or terrify her; she was quite willing to go wherever I went. So we did go on out to Shanghai and arrived there in August of 1948.

Marcello: What was the nature of your responsibilities when you first went to China? I gather that you were strictly an accountant at that time.

Yergin: Yes, absolutely. I spent only four months in Shanghai. The first part of that time was sort of getting indoctrinated--getting acquainted with how the company was run--by visiting some of the installations right in the Shanghai area. I was then put in charge of a terminal cost accounting group, which was some Chinese clerks, so I quickly had to learn from the accounting manuals and from some very good, helpful people what it was all about in order to do that. One of the Caltex people who was most helpful of all to me was a chief accountant there whose name was Sol Feldman. Sol was a wonderful gentleman, and his widow is still a good friend of ours.

There's one interesting thing. In visiting the areas, the terminal in Shanghai was down the river a ways and on the other side of the river, so we had to take a truck down there driven by a White Russian driver, which was itself sort of a harrowing experience, the way they drove. Anyway, we got down there and got on a small launch to go across the river to the terminal. Looking at the river just a couple of feet from me, it was the dirtiest, muddiest, filthy-looking thing I ever saw. The fellow that was with me said, "Yes, if you fall in there, they don't even bother to haul you out because you've surely contracted some fatal disease instantly."

The other thing occurred at the terminal. I went to the terminal superintendent's office--Hod Hill was the superintendent--and he greeted me and gave me a quick overview and then sent me out with someone else to see the terminal. Just before we left, he said, "Oh, by the way, if you hear a siren go off, look at your watch. If it's twelve o'clock, come on over to the house for lunch. If it's not twelve o'clock, run like hell." (chuckle) So these were some of the initial experiences in Shanghai.

Marcello: You mentioned Sol Feldman a moment ago, and you seemed to indicate that he was rather influential in that early part of your career. In what way?

Yergin: He was very expert in accounting, but he also, I think, could well have been an accounting professor in a university because he had an ability and a willingness to pass along his knowledge and information in a very helpful way. He never stinted on his time to do that. He was extremely helpful.

The period that I was in Shanghai was particularly interesting because, when we arrived in Shanghai in August of 1948, the exchange rate for the Chinese national currency was about thirteen million to one, or it very soon became thirteen million to one. The authorities decided that they were going to clamp down, so they converted the CN dollar--the Chinese national dollar--to something they called the gold yuan. The gold yuan was established at a firm, fixed rate of four to one, U.S. dollars, so the gold yuan was equivalent to 3,300,000 of the former currency. They tried to maintain that four to one rate and, in fact, succeeded for a while in the fall of 1948--and succeeded by some Draconian measures, such as taking currency offenders to the open square in Shanghai, sitting them in a chair, and executing them with a shot in the back of the head. This was all widely publicized and pictured in newspapers to warn people. That was the situation in the fall of 1948, as far as currency was concerned. I left there just before Christmas in 1948, and the currency was beginning to slide in spite of these things at that time.

Marcello: What effect did that rampant inflation have on the business of Caltex in China during that period?

Yergin: Number one, we didn't sell on credit. We tried to buy on credit, and as individuals we all tried to maintain credit accounts with the club for our lunches and so forth, and we also obtained overdrafts with the local banks. But after a while, the club called for cash payments about every week to keep you in the black or close to it.

Everything was on a cash in advance basis. The dealers who came in to order had to pay cash in advance in order to get an invoice so they could go out and take delivery.

Payments to employees--salaries--was a big problem when I moved from Shanghai down to Canton. In Canton, I was the district accountant--the accountant in charge of the Canton district. On paydays in Canton, because of the galloping inflation, I would meet early in the morning with my counterparts from Shell and Standard Vacuum Oil Company, and we would compare a list of prices for a basket of commodities that we each had gotten from our own sources, as well as the exchange rate for the Hong Kong dollar. We would then agree on an index for today's payroll. As soon as we had agreed on that, we'd pick up the phone and call our payroll clerks and tell them to go to it. They would quickly calculate how many gold yuans should be paid to each employee that day and immediately start paying them. Because the exchange rate was moving during the day, one payday we would start paying from the beginning of the alphabet, the next time from the back of the alphabet, and the next time from the middle of the alphabet. There was always an exchange dealer in the outer office so that people would get their local currency, which we had to legally pay them, so they'd go out and immediately sell it to the exchange dealer for Hong Kong dollars. One payday in particular, the rate moved so fast that we realized that by the time the people were actually getting their money, they were getting a good bit less than we intended them to get, so we had a supplemental payroll that afternoon. It was quite an experience as far as galloping devaluations of currency is concerned (chuckle).

Marcello: I've also heard it said that on some occasions, employees would actually be paid not only in money but also in kind. Had you ever head this?

Yergin: No, we did not do that in Canton because Canton was so close to Hong Kong that no matter what anybody did, Hong Kong currency was widely circulated and used in Canton, and there were exchange dealers who were able to deal freely with the people, notwithstanding any regulations. So we didn't get into payments in kind.

At the time the gold yuan had again started to take off just like the previous currency had. At a time there, there were three exchange rates in effect. One was for small denomination bank notes, and it was very difficult for the officials to keep the bank notes printed fast enough to keep up with the galloping inflation. So the older notes were worth almost nothing; you had to have a whole suitcase full to amount to a few dollars. If you were exchanging those for Hong Kong dollars, you got a poor rate. If you had new notes of large denominations, it didn't take as many of them, so you got a better rate of exchange. The worst rate of all was for a bank check because a bank check gave you no assurance that you were going to get any currency at all.

At one time, as a specific instance, when the rate for a bank check was about ten times worse than the large currency, we needed to make a customs payment to the tax authorities in Canton in order to release a cargo of oil that we had. First, we called in our dealers and told them they could have an allocation of product if they paid in advance in currency. So they came in, and they paid their currency in advance. Then rather than using the currency to pay the customs duty, we exchanged the currency for a bank check worth about ten times as much as the currency. We paid the customs duty with the bank check, which they had to accept--being a government body, they couldn't insist on cash--so the duty cost us about one-tenth of the nominal value through this mechanism. What really put the icing on it was that we later discovered that the check we had purchased had been sold by our competitor, Standard Vacuum Oil Company. So we beat them both ways.

Marcello: You mentioned your competitors, and let me follow up on this. What was the nature of the competition among Caltex, Standard Vacuum, and Shell at this time in China?

Yergin: It was not much different from any time in the oil business. None of us had refineries in China itself; we were all importing refined products and transporting them to our various marketing districts around China. We had service stations, consumer account sales to customers, and so forth. So it was not much different from any other aspect of the marketing end of the oil business.

Marcello: For Caltex, who were some of the major consuming accounts at that time? Do you recall?

Yergin: In Shanghai, the biggest one was the Shanghai Power Company, which had a big terminal across from our terminal--between the city and our terminal. We, in fact, had some tanks on their property where we delivered the fuel oil directly into those tanks. We also had a lot of business with the Chinese National Airways--C.N.A.C. I can't recall what other specific big accounts we had, but there were bus companies and taxi companies and that sort of thing.

One thing in Shanghai that I did want to mention, because I've repeated this story many times, is that in the fall of 1948, the Chinese Communists had already taken part of North China, and they were rapidly moving down. It was obvious they would be in Shanghai in a matter of months at least. In the fall of 1948, we were young, and some of us would go out on a late afternoon to get some exercise, and we played basketball at the YMCA. I remember well one afternoon when we were taking a breather, which we badly needed. Among the basketball players was Jim Voss, Harry Bernard, Bill Vos, and Bill Connell, who has just recently retired. We were sitting around one of these times chatting about the Chinese Communists approaching, and we got on the subject of "Would you stay behind when the Communists come in if the company asked you?" Some of us said, "No, not me, buddy." But Jim Voss said, "Yes, I'd be willing to stay behind, if they'd put me on a full expense account plus a bonus of $500 a month. I would be willing to stay."

As things developed, both he and I left before the Communists came in. But about a year later, I was down in Hong Kong, and Voss was there. The Communists had taken over Shanghai, and we only at that point had four expatriates left in Shanghai, one of whom was a lawyer--Blaine Hollimon. At the company's request, Jim had applied for a visa to go into Shanghai to replace Blaine Hollimon, who desperately wanted to come out. I noted this to Jim, and I was thinking about our previous conversation. I said, "Jim, what did the company offer you for going back into Shanghai?" He dryly said, "Continued employment." (laughter) So our concepts sometimes change from the theory to the practicality. Jim was always a very pragmatic person and still is to this day, and it has served him well.

Marcello: You were talking about the civil war between the Communists and the Nationalists. At that stage--let's say around the time that you first arrived in China and during the next few months--what plans was the company undertaking in the event that the Communists would eventually be triumphant?

Yergin: At that time the general belief in China was that life would go on; it would be different, but life would go on. In fact, one of the reasons that the Communists succeeded--I wouldn't say in enlisting their support, but at least avoiding violent opposition by the general public in China--was because of the perception that life under the Kuomintang of Chiang Kai-shek was not very good (there was corruption), and it might be better under the Communists, so why not give it a try and see. Anything else might be better, so there was not the understanding or the mentality that existed later on in the 1950's and 1960's about what Communism really meant and what a centrally-controlled, dictatorship-type economy would mean. So I think generally Caltex felt that it was a good possibility we could continue to do business in some fashion after they came in.

In fact, when they took over Shanghai, we had not evacuated all of our people. We had quite a few expatriates in Shanghai. I was then in Canton, as I mentioned before, and we had four or five expatriates in Canton. Management asked whether a couple of us, at least, would be willing to stay when the Communists came in. They indicated that the manager would be appropriate, and he said, "I think the fiscal man should be there." So that was me. I didn't even tell my wife that, but I said, "Okay, if they want me, I'll stay."

But after the first few months in Shanghai under the Communist regime, it became very apparent that business as usual was not a possibility at all, and there was nothing to be gained by keeping people behind in an attempt to keep the business going or to protect the assets or anything. In Shanghai, at the first opportunity, which came in about September of 1949, all of the expatriates were evacuated on the SS General Gordon from Shanghai to Hong Kong, with the exception of the four expatriates who stayed behind. In Canton at about the same time, we all left, so there were no American expatriates left in Canton by the time the Chinese Communists took over there.

Marcello: You mentioned that it became quite apparent shortly after the Communist takeover that business would not return to what it had been prior to their coming to power. Can you elaborate on that in terms of some specifics?

Yergin: Yes. You may have heard one of these stories, and it should be told by McMillan because he was the party present. One instance, for example, that we heard was that he and the other expatriates that were there decided that they just couldn't keep on meeting the office expenses and going on, so they would have to terminate a bunch of people. So they wrote up a circular advising the staff that they were going to be terminating a bunch of people. They sent it down to the mimeograph room to be reproduced. Now there were unions, and the Communist representative refused to let the people reproduce this circular. So McMillan and "Stu" Marshall and George Rockholtz went down to the mimeograph room--the general manager and his two top aides--and one fed the paper into the mimeograph machine, the second one turned the crank, and the third one took them out. The fourth was the shop steward, who then tore them up. So they went on with this little drill for a while--they putting it through the machine and he tearing them up--until they finally gave up and realized there was no use in trying to beat the system. This is just one example of the fact that management lost its ability to manage and instead became responsible for meeting the payrolls and so forth, but with no authority over the employees or the business, either.

In fact, the Chinese government never did nationalize or sieze the company's properties. I think the description or the terminology they used was that they took it under protective custody. That's the way it remained forever.

Marcello: What kind of a market did Caltex have in China at that time, let's say, as compared to what Shell and Standard Vacuum had?

Yergin: I don't remember the specific percentages, if I ever did know. Caltex was a very big factor in the market in China even though Standard Vacuum, which was the amalgamation of Esso and Mobil and therefore very similar to Caltex, which was a Texaco-Standard of California plan, had been there for some time. For instance, the book Oil for the Lamps of China was really talking about the Standard Oil of New Jersey and Mobil oil for the lamps of China. Shell, of course, had been there for a very long time and was a big factor in the market in China.

Caltex was sort of an upstart. We'd been there before the war, but immediately after the war, through the efforts of some very loyal Chinese as well as expatriate non-American prewar employees, they got to work immediately and obtained cargoes of refined oils that were brought in almost immediately after the Japanese were evicted. We got back in and reclaimed our physical properties and got the business going more rapidly than either of the competitors had done. My perception and understanding is that because of those very prompt and alert actions, Caltex obtained a very large and much larger share of the Chinese market than we had had before the war.

Marcello: Who were some of these individuals? Hans Bieling is one who comes to mind.

Yergin: Hans Bieling is one, but Phil LeFevre was the top man at that time in the China operation. Hans Bieling was general manager, working with Phil LeFevre. One of the Chinese... I think his name was Chuck, but I can't remember his first name now. He was one of the Chinese who got in right away and helped greatly in getting the business restarted.

Marcello: I've heard several people talk rather fondly about Phil LeFevre. Give me your recollections of him.

Yergin: Phil was a unique gentleman--very much so. He was not only a good oilman and a good executive, but he had a great interest in athletics, particularly baseball. Some of this happened before my time but was still going on when I was there. In fact, Phil left about the time that I got to Shanghai, but I knew him subsequently as well. In Shanghai, he had early on organized a baseball team--a Caltex baseball team--and a baseball league in Shanghai. Reportedly, some of our Caltex expatriates were hired away from other foreign companies there because of their baseball capabilities. So we had some from British-American Tobacco and other companies who were hired in order to play on the Caltex baseball team, which was a very good team, I'm told.

Marcello: You've mentioned that among the positive qualities was the fact that Mr. LeFevre was a good oil executive. I believe those were the words you used.

Yergin: Yes.

Marcello: What special qualities did he bring to the business?

Yergin: Again, I can't really tell you first-hand because he was just leaving Shanghai when I got there and went over to Japan, where he really got us started in Japan. In those early days, I was still in China. So I didn't really work directly with him for any length of time.

Marcello: You also mentioned a moment ago that there were certain Chinese who were instrumental in the reestablishment of the Caltex markets in China. Let me ask you a general question at this point, and I'm sure it would apply to other countries as well. How important are these kinds of individuals in the operations of a company such as Caltex? Take, for instance, the people here in China; I've heard talk of Shun Nomura in Japan, Jose Alvarez in Spain, and so on and so forth. How important are those kinds of individuals?

Yergin: They're critically important. All in the world, really, that we expatriates brought in was our particular management techniques and a knowledge of the technical aspects of the oil business itself. In terms of trying to do business within the country--and this is as true today as it was at any time--the people who really know the country and the people of the country, who are our customers, are the native people there. We learned from them. One of the most interesting and fascinating parts of working for Caltex is the fact of the diversity of countries that we operate in. This has always struck me, that even though China, Japan, Korea, and the countries of Southeast Asia were all relatively close to each other, the personal, social, historical backgrounds of the peoples of each of these countries is very different. You can't deal with people in one of those countries the same way--or expect them to react the same way--as the people in another one of those countries, because their whole cultural and sociological backgrounds are different. We have to learn that from the people in the country that we have working with us there.

Marcello: I realize that you were only in China for a short period before the evacuation took place. Let me ask you a few more questions relative to your time in China. We mentioned the inflation and so on a moment ago. How did that inflation and so on affect the pricing policies for Caltex in China during this period?

Yergin: It was a little like the problem of the payroll. Again, I'll go back to a point I made earlier. We got paid in advance so that we knew what our U.S. dollar costs were for the products, so that in pricing the products in local currency, we clearly were working off of a solid base, which was the U.S. dollar. We had our own calculations of what price we needed in dollars in order to stay ahead of the game. So the price was determined almost at the moment the man was paying you the money, based on the exchange rate at that time of day--not only on that date, but on that time of day. Payment had to be made immediately, or else the price changed. So there was a very short distance between the saleman's office and the cashier's office.

Marcello: Talk a little bit about the events actually leading up to the evacuation from the mainland. Again, I'm referring to you personally. How did all this come about?

Yergin: I was in Canton. We were there for about nine months--through the first nine months of 1949, during which time the Communists had taken over Shanghai in May of 1949 and were moving west and south. They had taken Hankow in the interim, and they were moving from Hankow, which is in the central part of China, down the river toward Canton. We were keeping track of the progress of the armed forces as they moved south. We had people up-country who we'd talked to on the phone every other day or so and find out what was going on.

About that time, we became alarmed at something which had happened in some of the other cities in western China, where, pragmatically and typically Chinese, when the rebel forces were approaching in some cases, rather than shedding a lot of blood and getting people killed unnecessarily, there would be a quiet pow-wow between representatives of both sides. They would compare notes on "how many forces do you have and what we have" and so forth, and they would decide there was no use in getting everything torn up. "Oh such-and-such a date at such-and-such an hour, we'll move out and you can come in and take it over." So this had happened, and Chungking was one particular example. Chungking was Nationalist one day and Communist the next day, with nobody being killed or shot up in the meantime. So we were very concerned that even though we could keep track of the physical progress of the forces, we might wake up some morning and find out that by agreement we were suddenly in Communist territory instead of Chinese territory. This was a concern to us as we moved into the summer of 1949.

Marcello: By this time you knew that they weren't really agrarian reformers.

Yergin: Yes. The experiences in Shanghai had proved that it was a totally different world, and that there was no use trying to stay in the hopes of being able to do some business.

From a personal point of view, we had a particular concern because my wife was almost nine months pregnant. In fact, our number one son was born in the Presbyterian Mission Hospital in Canton on August 15, 1949. During that last couple of weeks, even the general manager, B.C. (Larry) Lawrence, who was in Hong Kong, would call up every day or so to find out how the Yergin baby was doing, because they wanted us to get out of there as soon as possible. We didn't want to leave at that late stage in the pregnancy. So when the baby was born we did leave Canton as soon as they could travel. We went directly from the hospital to the airport and then took a short flight down to Hong Kong on about August 24 or 25 of 1949. The Communists finally came into Canton about early October of 1949--about six weeks after we left.

Marcello: How was it determined that McMillan, Hollimon, Rockholtz, and Marshall would be the ones to remain behind to more or less look after the Caltex interests?

Yergin: Since I was a district accountant at that time, I was really not a party to the decision of who would win that exciting task. It may have had something to do with the fact that--I believe--all four of them were bachelors at the time. They may have felt more inclined to take a chance on it and see what happened.

Marcello: So you evacuate Canton and move on to...

Yergin: Before leaving Canton, however, Tommy Thomas, who was the manager, and myself were concerned with making provisions for the staff so that they would be able to live when we left. Based on reports from the north, we really didn't have any clear idea of what kind of money would be able to be used. Our office was right across the street from the Hong Kong-Shanghai bank, and they had a vault over there. We arranged to acquire a quantity of several different kinds of values. We bought maybe $120,000 worth of Hong Kong dollars; we had those in the vault. We had acquired from the exchange dealers a couple thousand Mexican silver dollars; those were in the vault. We bought about 115 taels of gold, which was...I forget how many ounces it was, but it was also equivalent to about $100,000, I think. So we had those three things, as well as our normal local currency, on hand and available--not in the bank, but in the bank vault. So they were not on deposit with the bank; they were just for safe-keeping with the bank. So we had provided those things to help the employees tide over the changeover until they could sort out what kind of currency was going to be usable.

Marcello: When you left Canton, what kind of possessions or belongings were you able to take with you?

Yergin: Well, we did not own the furniture that we had in the house. The company had taken over all the furniture, so the employees weren't burdened with having to move all that out. We really only sort of had our suitcases when we left and went down to Hong Kong. We didn't leave anything of value; some people did. Some people had furniture that they had acquired--really almost works of art. One individual in particular, Kader Bryan, left Shanghai before the Communists came in, and he had a lot of valuable furniture. But because he left before they came in, he was able to ship it all out when he went. Ironically, he then was posted to Korea. He went back into Korea, took the furniture with him, and lost it all in the Korean War. So you can't win sometimes, no matter what you do (chuckle).

Marcello: Once you get to Hong Kong and get established again, what activities do you engage in relative to the business of the company?

Yergin: Hong Kong, at that time, was a mixture. It had been a district office responsible for Hong Kong itself and some of the south China cities that were outside of the Canton district. Also, because of the fall of Shanghai, it had become--at least temporarily--the general office of the China company. It was now in Hong Kong. So we had a great many more expatriates than would normally be there for the business of the Hong Kong district. We had a combination of a district office and a general office, and I was the district accountant for the district office of Hong Kong. The housing was a problem because so many people had come into Hong Kong from Shanghai that there was not adequate housing. The company was very fortunate to have six apartments on the Kowloon side of Hong Kong--the mainland side--in one building, which was on Argyle Street. These were six flats on a three-story building. We had a very good deal on them; we were only paying something like $500 a month for each apartment. They were very, very deluxe apartments by any standards. The servants' quarters alone had about five rooms, and they had a huge kitchen of their own outside of our kitchen. I think some of them took in boarders to make money because they had so much room in their area. In another instance, we acquired an additional building with two apartments in it. In order to get that one, we had to pay "key money," which is a standard even to this day in China--to get the key, in other words. That is the meaning of "key money." We paid about $115,000, U.S. equivalent, for the "key money," just to get the lease on the apartment. The owner of that apartment then went ahead and used the "key money" to build a similar building next to it on an empty space. As you tried to get additional space, the price went up very, very sharply in terms of living for the people there.

Marcello: What contact did you have with the four expatriates that were left behind in Shanghai during this period that you were in Hong Kong?

Yergin: It was pretty good. There were open telephone lines; generally, they could talk back and forth and certainly communicate by mail. In fact, in the early days, after we had left Canton and came down to Hong Kong, the border between Hong Kong and Canton was relatively open. Chinese, at least, were permitted to go back and forth between Canton and Hong Kong. During that time, we had occasional visits from Chinese that we had known in Canton. We then heard some of the eye-opening stories about what was different about the agrarian revolution and the agrarian reformists and the previous government.

For example, our office in Canton had become a very different place. One Chinese who had been a translator--relatively low-level as far as stature in the company was concerned--had now become the union representative in the office. He was very autocratic about it, and people lived in fear of what he might do or say. People who had been good friends for many, many years--grew up together--were now afraid to talk to each other openly because there were many stories of people who had talked or complained about things, and suddenly in the middle of the night, somebody knocked on the door, and they would disappear and were not heard from again. Children were being taught to tell tales on their parents.

It was very quickly apparent that in spite of the feeling before that, "Well, maybe anything is better than what we have," they quickly learned that that was not so, that this was a totally different world that they now were in. Shortly after that, of course, the Bamboo Curtain rang down, particularly when the Korean War broke out in June of 1950. Thereafter, the communication was much more sparse, although these three--Hollimon did come out, and then there were three left--did stay until, I think, about April of 1952 before they were able to come out.

Marcello: What kinds of help did you give them in order to ease their internment in Shanghai?

Yergin: I don't recall. I don't think they lacked for anything from a monetary point of view. They were able to meet their own needs and so forth. In Shanghai, especially for those foreigners who were there and so forth, I don't think there was any difficulty in getting all the amenities that you needed. I think they lived fairly comfortably, except for the mental concern about the constraints on them and the frustrations of being the bosses but not really having authority. Of course, their affairs outside of China were being taken care of, so they didn't really need to worry about that. I should also add that these were all well-seasoned expatriates of Caltex. So they were all accustomed to being in foreign countries. That alone didn't shock them at all. They knew how to roll with the situation.

Marcello: How well did you know those four individuals at that time?

Yergin: Not too well because, as I said, I'd only been in Shanghai four months, and these were Shanghai people. I probably knew McMillan better than the others. In fact, one of the first days after I arrived in Shanghai, they were taking me around and introducing me to the people, and I just before that read somebody's account of ideas of how to remember people's names when you meet them--think about something about them that was distinctive and then as soon as you get a chance, write it down in a book so you'll remember it. I don't remember any of them except for McMillan. I remember well that after I met him and got a chance to jot it down, I wrote in my little book, "Loud voice, bow tie," because those were two outstanding characteristics. As a matter of fact, he still has the loud voice.

A story came up just recently. As you know, he lives in Colorado Springs now. Early last year, our chief executive in South Africa appeared prominently on the TV here in the U.S. and in Newsweek magazine in articles about the apartheid problem in South Africa. One night about two-thirty in the morning, Dennis Fletcher, our chief executive in South Africa ...his phone rang, and he picked it up and a voice said, "Dennis!" And he said, "What?" He said, "This is 'Mac.'" He said, "I know, 'Mac.' But what are you calling me now for? It's two-thirty in the morning!" "I don't care what time it is, Dennis! That was great! That was terrific! You did a wonderful job on that interview! I want to congratulate you!" "But it's two-thirty in the morning!" "I don't care!" (chuckle)

Marcello: Some things never change.

Yergin: No. He's a tremendous guy.

Marcello: Let's talk a little bit more about the business of Caltex in Hong Kong during this period. In one of the previous interviews, one of the other former executives brought up the point that the name of the game at that time was the moving of crude. Would you agree with that?

Yergin: Yes, absolutely. Caltex's fundamental mission and reason for being was to serve as the outlet for the crude oil that our two parent companies jointly had found and were producing in Saudi Arabia as well as in Indonesia and later in Iran as well. At that time, the pricing structure was such that most of the profit was in the crude oil. The downstream refining and marketing had to kind of scrape along and make do with whatever they could get out of the market. The availability of crude oil to our parent companies was more than we could ever dispose of, so there was no restraint on it. The more we could move, the more profit they made, because they made it on every barrel that was produced. That was Caltex's mission--to maintain and enhance our market share and move more and more product all of the time.

Marcello: If you can remember, what was Caltex paying for oil at that time?

Yergin: At one time, it got down to about $1.30 a barrel, I think, before OPEC began to exert themselves and push it up. The reason that it got down so low is that...I don't remember the years now, but in the early years, certainly in my career with Caltex, there were relatively few companies in the international side of the oil business--the so-called Seven Sisters, which now is a perjorative term and then was only a descriptive term. The oil business was fairly stable, and everybody had a place in it. I don't mean they had agreements to it, but they had a role--they had a position in the market and in the oil production.

In the fifties--I guess it was probably the late fifties --other oil companies which had not previously been in the international scene began to poke around to get concessions to look for oil. The most significant of those was in Libya, where a number of companies obtained oil concessions in Libya and succeeded in finding oil. Having sunk the money in the exploration and now needing to dispose of the oil...but they had not, as we had done, developed markets in the areas outside of the United States. So they had to sell the oil, again because the profit was in the crude oil. They had to have a place to sell the crude oil, and Europe was the only logical place for the oil to go. So they were selling the oil out of Libya and later from other areas at whatever price they could get for it.

Since there was already more than enough crude oil in the world markets, this had a depressing effect on the prices. It was at that time that the prices got down to the level that I mentioned before, about a $1.30. There were talks of dollar-a-barrel crude oil coming in that environment.

One of the things about the oil business, of course, that's a characteristic is that it runs in huge, sort of long-wave cycles. When there's perceived to be a relative shortage, then everybody gets busy looking for oil because they are sure they are going to make a profit on every barrel they sell. They'll go out and spend money to find oil, but it take years to find it and years to develop it and be able to bring it to market. By the time they bring it to market, maybe a lot of other people have found oil as well, and then you have a surplus, which is the condition we're in now. The price then sags. It's inherent in the nature of it, simply because of the time lags that are involved from one end to the other, that the prices will swing.

Marcello: What were you doing relative to the properties and so on that you had on the Chinese mainland during that period?

Yergin: There wasn't anything we could do with the properties. They had been taken under protective custody by the authorities in China. We had removed all of the title papers from Shanghai, and they were in Hong Kong already. In fact, when I left Hong Kong in early 1951, I carried all of the title papers for the Chinese properties in a separate large briefcase that I had. I was just the courier. I brought them back with me and delivered them to the legal department of Caltex in New York. So we had the title papers, but we didn't have anything to work with. It was all in China.

Marcello: Are there any kind of claims that one could make under those circustances for when you eventually returned to the mainland?

Yergin: No, I think not. We made claims against the Chinese government. The value of the properties was something in the order of fifteen million dollars, as I recall. We filed a claim with the authorities in China, with copies to the U.S. government, of course, for something more than that, based on valuations. In fact, many years later--not too many years ago, in fact--we did collect. This was very largely a result of the reopening with China. Part of the deals made was that they would honor claims and would pay them. They didn't pay them in full; we got roughly 40 percent of the amount of our claim. Something over six million dollars was paid to us. Of course, if you put a time value of money on it, that was peanuts. But it was still better than nothing, which we had been facing up to that point. That was an interesting sidelight of the Nixon reopening of the relations with China--that we were able to collect something over six million dollars.

Marcello: Before we move you out of Hong Kong and back to New York, is there anything else in that Chinese experience that we haven't covered and that you think we ought to get as part of the record?

Yergin: The experiences in Hong Kong...of course, I was there at the time that the Korean War broke out, and I remained for the better part of a year after that.

Prior to the breakout of the Korean War, Hong Kong, as it has always been, was an entrepot, and there's a great deal of trade. There was still trade going on between Hong Kong and Communist China, notwithstanding the different regimes. Even petroleum products were moving across the border fairly freely. Our dealers, kerosene dealers in particular, and others...I don't think they necessarily legally took them across, but it was quite easy to move them across.

But when the Chinese pulled down the Bamboo Curtain at the time of the Korean War, they then toughened it up. It became much, much harder, so the price of gasoline and kerosene on the other side of the border, in China, zoomed up to where it was almost ten times as high as the price in Hong Kong. There was obviously an enormous incentive for people to obtain products...and the Hong Kong government had a constraint against shipping products across by agreement with the Chinese that they would try to deter this. So it was highly illegal, but nonetheless people--particularly the Chinese--were always finding a way to do things. They were still finding ways, and, of course, it's a very long water border in south China, and they had many centuries of experience in smuggling things across. So there was still a good bit going across. But the evidence that it had tightened up was the fact that the price was about ten times higher on the other side of the border.

At about that time, one day I was out playing golf at the Royal Hong Golf Course out at Fan-ling, which is only a few miles from the Chinese border. The Chinese Nationalists had only fairly shortly before been ousted, so they were still sending in planes now and then to shoot up the Communist side. One day, as we were playing golf, a Nationalist fighter plane came over the golf course quite low, headed for the border. Shortly after, we heard the sounds of antiaircraft guns from the other side of the border, and black smoke poured up from over there. Obviously, they had hit something. The next day, one of our principal kerosene agents came into the office with a sad story about how he'd had a fire at his go-down, and it destroyed a lot of his kerosene, and could he please order another shipment of kerosene (chuckle). So it was pretty obvious that he was the one who'd lost some product in that particular raid.

There's another thing about that time before west China had closed altogether to the Communists. The Nationalists, in the last stages, were still trying to maintain some operations out there. They were flying petroleum products in fifty-five-gallon drums from Hong Kong out to west China. These planes would take off heavily loaded with these drums from Kai Tak Airport in Hong Kong. We were living in this Argyle Street flat, which happened to be almost in line with the end of the runway and on a hill. These planes, as they took off from Kai Tak, would be really straining and lumbering to get up. The road out in front of where we lived was sort of a cut between the hills, so they would come up through there to take advantage of every little bit of elevation that they could get. Quite often, we were in fear that they weren't going to make it and set us all ablaze. That fortunately didn't last for very long, and they then were out altogether.

Marcello: This is something I meant to ask you awhile ago, and neglected to do so. What kind of product was Caltex selling in China during that period that you were there?

Yergin: We were selling gasoline, kerosene, diesel oil, fuel oil, and lubricating oils--the full range of the barrel, really.

Marcello: What was perhaps the principal product?

Yergin: Kerosene, I think. China has always been very heavy on the kerosene, traditionally. It's what they use for household cooking and heating.

Marcello: This is something else that you mentioned awhile ago, and I was simply going to ask you about it--Oil for the Lamps of China. Would you care to comment on that?

Yergin: It's been so long since I even read the book, but the book was written, as I said before, about the early Standard Oil activities in China and how, I guess, the activities of the oil company really opened up the Chinese market.

Marcello: I guess what I was referring to was this business about the vast market out there and all of the profits and money that was going to be made off the sale of oil for the lamps of China.

Yergin: That "oil for the lamps of China" was referring pretty much to kerosene. As I said before, the principal use of kerosene in the countryside was for cooking and heating. Since vast numbers of people are always an attraction to marketing people, you've just got to get out there and sell them product.

Marcello: You just mentioned something a moment ago that I want to follow up on. You mentioned cans of kerosene. For a long time, is it not true that the China market was a "case and can" market?

Yergin: Yes, very definitely so. There wasn't much moved in bulk, except for, say, the power company; we would also provide some bus companies with a tank underground or a storage tank above ground and sell to them. Mostly it was small quantities. We had can factories, as we called them, where we made the cans and sold them, and drum factories. There were drums and cans. A lot of the cans got to be building materials that were used in building their shacks.

Marcello: I guess it was quite a problem keeping up with all of those cans and containers and so on and so forth.

Yergin: Yes. We tried to keep track of the drums. We didn't on the cans because we knew they were gone once they got out of your hand. The drums we tried to keep track of, and we charged a healthy enough deposit on them so that we hoped to get them back. Even so, a lot of them disappeared forever.

Marcello: Obviously, as opposed to having bulk storage terminals and so on, the case and can market must be inefficient.

Yergin: It surely is, because of the handling involved. You need space, to begin with. You need a lot more handling because you're handling the packages themselves, and you're handling the filling of the packages and then transmitting them; whereas, if you're dealing with bulk, it's a much simpler, more efficient operation. But that's the way the business is, so you've got to go with it.

Marcello: In 1951, you were assigned to New York--the home office--and I believe you were assigned to the Taxation Division. How did that come about?

Yergin: I came back to New York in 1951. Because my wife had had very serious problems with the birth of her first child in China, we were alarmed enough by that that we didn't want to take a chance on something happening. We had almost lost her and the baby then, so we didn't want to take a chance on that. Sid Stacy told me that what they had in mind for me after my home leave was to assign me to Colombo, Ceylon. We talked about that and decided that we didn't want to take a chance on another overseas assignment at that stage while we were expecting to have more children.

Knowing that there was pretty limited opportunity for positions in the New York office--we were mainly an overseas company--I told Stacy that I didn't really want to go back overseas, but realistically I knew there was little likelihood of an opening for me, a junior man just back from one tour. So I wanted him to know that I was going to start looking for a job outside somewhere. So he said, "Well, okay, if you want to do that." I did start to put out some feelers, looking for a job. Sid called me and told me that he wanted me to have talk with their tax manager because they were in the process of trying to enlarge the Tax Department and improve its capability, so he asked me if I would mind going talking to him about it? Of course, I knew nothing more about taxes than the standard tax course I'd taken at Columbia, but I went and talked with him. The gentleman that I talked to was a fascinating individual by the name of Frank Pope. Frank had been with Caltex for many years. It's too bad you can't interview him because he's long gone, but he had many anecdotes. I spent a couple of hours just chatting with Frank, the upshot of which is that I decided to have a go with the Tax Department. We seemed to hit it off extremely well together. He was, at that stage in his career, pitifully crippled with arthritis.

He had to have a special chair in the office and had to be brought to the office and taken home by special limousine. But he had a tremendous mind and was a very intriguing person to talk with--a lot of experiences and knowledge. It looked to me like it would be a very good experience for me to get into that, so I agreed to go to work in the Tax Department. I was there for about six years as the assistant chief of the Tax Department, when I moved out of that.

Marcello: Let me ask you a question at this point. I know that in the case of some Caltex employees, maybe in other areas, such a move was a real career decision. In other words, I've heard it said that a move out of the field back to New York could perhaps be a detriment.

Yergin: Oh, yes. Sure. This is why I openly said, "I realize that this is not a good thing, so I'm willing to go out and look for another job," because I didn't know what any possible outlook was for me in the rather limited head office situation at Caltex. I was really fully prepared and intended to go out somewhere else. As I say, this particular tax opportunity came along, and I thought I would have a go at it. There was also a possibility, which sometimes happens, particularly in something like taxes, that you become wedded to it and almost chained to it, because they don't want to let you move out to something else. But I was still young enough that

that didn't worry me particularly. I was still only twenty-nine years old or so...thirty years old, I guess.

It was a very interesting and exciting thing because taxes in Caltex has always been...there's nothing dull and repetitive about it. The particular thing about it is that we operate in so many different foreign countries that we have to live by and get into our bloodstream the concept of foreign tax credits and foreign tax laws and how they interplay with the U.S. laws and so on. The first years of my tax experience was really learning foreign tax laws as well as U.S. laws and how they interplayed with each other.

In fact, at one point--to show you the lack of perception I had--after I'd been in the Tax Department almost a year, they asked me to go to a course up at Columbia, a special three-week course at the Watson Scientific Laboratories, which was to participate in this three-week course on the special machines. They had these new-fangled computers--electronic computer things. So they sent me up there to find out about this and see whether there was any use that Caltex might make, particularly in the tax area, but maybe in other areas, with these electronic machines. I found myself among people with disciplines that I'd never even heard of, let alone had any familiarity--crystallographers, astronomers, and people talking mathematical systems that I'd never even heard of. They sent me there because I had a mathematics major and so on. At any rate, my report, I'm sad to say, concluded that there was really no future in this for Caltex. Well, I was right at the time. The capabilities of the machines at the time were not sophisticated enough or flexible enough, really, to be adaptable to the particular things we were doing. Of course, I didn't foresee how they would improve the technology so rapidly as time went on.

The Tax Department was also a tremendous educator for me in Caltex because so many facets of the business impact taxes that you got involved in every phase of what was going on in the business when you were in the Tax Department. So I learned a great deal about Caltex and was involved in a lot of major corporate studies on possible reorganizations and financial analyses and that sort of thing during the six years I was there.

In fact, that was how I was ultimately taken out of taxes. I guess the people in the financial side--MacIver and his people--were impressed with my analytical and articulate capabilities, so they thought they wanted to take me out and get me into the financial planning side of the business, using my tax knowledge in those different aspects of the business. It was in 1957 that I moved over into the financial side of Caltex.

Marcello: Before we get to that point--and I do want to come back to it--let me ask you a couple of other questions. I've read the History of International Oil, which Mr. Voss made available to me. You're perhaps familiar with it. One of the things that the author mentions is that a significant event in the development of Caltex was the acquisition of Texaco's European and North African marketing and refining facilities in 1947. Even though you were not even connected with Caltex at that time, what do you know about that? What was the significance? What were the reasons behind that?

Yergin: The original Caltex from 1936, as you know, operated East of Suez. Particularly in the Tax Department, and shortly after the European thing, we had the East of Suez basket and the West of Suez basket, which were the tax bases for these two properties. The origin of Caltex, as you have been told, I'm sure, was that Standard Oil of California had obtained a concession and had found oil on Bahrain and had the concession in Saudi Arabia, but they had no marketing or downstream organization; whereas, Texaco already had this and had been in the business for many years. Texaco contributed the East of Suez basket of operations, and Chevron threw in Bahrain. They then created Caltex in 1936. Then in 1947--I do not know what prompted it or the reasons for it--Texaco sold the West of Suez properties to Caltex for cash--$28 million and some change, I'm quite sure that's the number. We bought it from Texaco, and then we operated throughout Europe as well as East of Suez. We were still on the basis that we were selling oil produced by Texaco and Standard of California in their jointly-owned producing operations.

Marcello: The name of the game is still moving that crude.

Yergin: Absolutely--move the crude, move the crude. They made their profits on oil out of the Aramco participation. In jumping ahead, later, when I got into the financial side, we were losing money on some of those operations, particularly in Europe.

Marcello: Why was that?

Yergin: Because, as I mentioned earlier, the extremely ruinous competition from the newly discovered oil in North Africa, which had no home. They just simply went to the European market at whatever price they could get. Everyone was considering that Europe was such a big market that it had to come good some day: "You've got to get in there because it will come good some day." The fact is that the availability of oil has continued, with minor exception, to exceed the market for it, particularly as far as Europe is concerned, so that the price structures in Europe have always been very difficult to make a profit downstream.

Marcello: It seems to me that during this postwar period, you have two very important events occurring, so far as influencing the development of Caltex. You have the acquisition of the European markets, and then at the same time there's also quite a demand for product East of Suez. Isn't that true?

Yergin: Yes.

Marcello: You're getting into the Japanese market and all of the potential there. It seems like those two things are very important in the development of Caltex.

Yergin: Yes. The Japanese market, in particular, was a rapidly growing market. We had only really gotten into that in 1949, 1950, 1951. The N.P.R.C. (Nippon Petroleum Refining Company) and the Tokyo Tanker Company were formed in 1951. We began to supply products first and then crude oil, and we helped them build the refineries in the joint venture companies. Of course, everytime we participated in building a new refinery or expanding a refinery, we gained an expanded market for crude oil. It was a rapid period of growth during the fifties and sixties when this expansion was going on. The growth in our sales of crude oil was very rapid. By the late sixties and early seventies, it looked like we were about to reach two million barrels a day in total sales for Caltex, and about to reach a million barrels a day just through Japan alone.

Marcello: Given the situation, that is, the acquisition of the European markets and increased demand upon product in Asia, what long-term strategies was Caltex developing during that period?

Yergin: I don't know how long-term we were in those days (chuckle), because by today's concepts of long-term strategic planning, we were certainly nowhere near as sophisticated in those days. I'm not sure they're too useful these days, even.

Marcello: Incidentally, if it's of any value to you, Mr. Tucker kind of chuckled when I mentioned long-term strategy to him.

Yergin: I guess the long-term things were more seat-of-the-pants than anything else. We knew that these were markets that were going to expand and grow, and we were determined to be major factors in them and to provide the facilities necessary to meet that growth and demand. Our planning process essentially did start with a ten-year horizon--trying to predict what the consumption volumes and patterns of products would be in all of our areas ten years ahead. The next step was to determine, within the next five years, what facilities we would need to have in order to meet that kind of a growth in terms of refineries, pipelines, tankers, and so forth--the things that take awhile to develop. Then we had a formal three-year program, which we presented to the board, of actual investment projects and operating programs and so on. Then the first year of it was the one that was officially approved, and to this day that's still done. The first year is the one where they approve the actual capital expenditures and expense programs and so forth. So we do look out a ways, and then we back off to what we need to spend right now in order to put things in motion to achieve those results, because, as I mentioned earlier, many of the things in the oil business take years from the beginning of the thought until you get them in operation. Refineries are a typical example of that, and tankers.

Marcello: This provides a good transition to my next question. That period from the early 1950s to about the middle 1960s was a period of rapid refinery expansion both in Europe and in the area East of Suez. How do you go about financing refinery expansion?

Yergin: That was one of the reasons they moved me over to the financial side, because we were getting into major financing. As a little aside on that--it was before my time, but it sticks in my mind--at the end of World War II, Caltex bought some old T-2 tankers from the War Shipping Administration, I guess it was. They borrowed $50 million from a group of banks in order to acquire these T-2 tankers which was the beginning of our tanker fleet. In order to finance this purchase for $50 million, they borrowed from the banks, at a cost of 2 1/2 percent interest. These were term loans, I think, running something like ten years. The story is--and this is second-hand or hearsay, if you will, because I wasn't present--that the then chairman of Standard Oil of California learned that Caltex had borrowed money, and he was horrified. He was absolutely horrified. "Borrowing money? This is unheard of! We don't borrow money; we use our own money! Tell them to repay it!" So we made an arrangement with the banks to repay it, and we repaid the money early to get rid of this burden and the shame of having borrowed money. That was back in the late forties, as I recall.

With the rapid growth in the 1950s and 1960s, clearly it was necessary to borrow money. I moved over to the financing side in 1957 and almost immediately became involved in tanker financing--financing the building of new tankers. In the fall of 1957, I went to London to negotiate the financing of four tankers to be built. We built those on the sale-lease back arrangement, which was fairly new at the time but not pioneered by us. Certainly this was the early stages of it. That was almost $30 million, which at that time was a good bit of money. It worked very successfully.

Marcello: What kind of authority would one receive at that time to carry on responsibilities such as this?

Yergin: We had to--and still do have to--get specific board approval for any long-term borrowing. That's always been the case. One first would get the approval in principle for the project and with the intention, and then one would have to work it out. But the final details of the borrowing terms would have to be approved by the board before they could be committed to.

Marcello: It seems to me that I've also heard in one of the previous interviews, relative to refinery expansion, that the policy was to build with borrowed money--don't use equity.

Yergin: Yes, and going even before that, our policy with respect to all of our operations was to put in as little money as we possibly could get by with, so in contrast with what one would expect in a normal publicly-held company, in those days we typically operated a subsidiary company with absolute minimum amount of capital stock and relied on local borrowings or open account credit from ourselves as suppliers in order to maintain maximum flexibility and movement of funds. Our companies were really very heavily under-capitalized in general, and we did rely on borrowing. Throughout the Eastern Hemisphere, it was certainly, and to some extent still is, standard practice to use bank overdrafts as a more or less permanent method of financing. As a matter of fact, when Mr. MacIver was the financial vice-president in the middle stages of the Japanese operations and they were expanding refineries with borrowed monies, at one point I recall him telling me that the financial vice-president of Texaco, Stan Crossland, once asked MacIver, "These long-term borrowings that you have on the books here--what's the nature of those long-term borrowings?" MacIver said, "They're ninety-day renewable notes." The Texaco vice-president was shocked. He said, "How can you call those long-term borrowings? What do you mean, long-term borrowings? Ninety-day renewable notes to build refineries?" "Mac" said, "Well, of course. That's the way they do things over there. They're ninety-day renewable notes, but they're definitely there for ten years or whatever you want." That's long-term financing by their standards, but it was not the standard U.S. customary methods of finance. You had to adapt to the local scene.

Marcello: You mentioned Mr. MacIver on several occasions, and I think within the course of these interviews we ought to get descriptions of various personalities. I want you to give me a sketch concerning your impressions of Mr. MacIver.

Yergin: Murdo MacIver is a unique person. As the old Reader's Digest used to have little bits about "The Most Unforgettable Person," he is a most unforgettable person certainly to me and to many other people. He's a very unique individual. I think one of the things about him that characterizes him more than anything is...and I travelled with him overseas on a number of occasions. This characteristic, I think, typifies him. You could be in a country that any other visitor might say, "God, this is a horrible place. There's nothing to redeem it at all, nothing good about it." "Mac," on the other hand, would look for the positive. He would find something about that country that was positive. So when he was being hosted by the people in the country, he would be enthusiastic about something. I think in one place he was talking about the black bread. He said, "There's no place in the world you can get black bread like this. It's the best in the world. You really have a knack for this." So he would talk positively, and he wasn't putting on an act. This was just the way he was. Whereas some people will always find something to criticize, he always found something to praise. As a result, people warmed up to him immediately.

He had, for example, tremendous friendships with the Japanese. You mentioned earlier Shun Nomura. He was like a brother to him. The treasurer of Australia, when he visited the U.S., would come up to his house and stay with him and this sort of thing because he was that kind of a warm person and had a real feel for people.

On one trip we went to Holland. He had his favorite hotels around Europe, too, that he liked to stay at. In Holland at The Hague, it was the Wittebrug--the White Castle in English. He'd been to the Wittebrug several times. We arrived rather late in the evening, and as we walked in the big front door and across the lobby, the reception clerk on the other side of the desk almost literally vaulted over the desk and came rushing out to greet Mr. MacIver with open arms: "Welcome back to the Wittebrug," and so forth. In part, I'm sure, it's because he was a pretty generous tipper; he believed in rewarding for service. But it also was because he was the kind of person he was. They were just delighted to see him back.

Those characteristics certainly were extremely valuable to Caltex because he had that kind of relationship also with the leading bankers in all the major banks, both in the U.S. and in Europe and elsewhere. He developed very quickly close personal relationships with them. As a result, if we needed to make some very large financing arrangement or unusual transaction on short notice, he could just call up the leading banker somewhere and say, "Hey, can you do fifteen million of this or something for us?" Within minutes, it would be assured that we could do it. It might take months to work out the details, but that kind of relationship was extremely valuable to us. I certainly never personally had the characteristics he has, but I think some of it rubbed off, and I learned some useful things from him in that time that I spent with him, which was quite a bit.

Marcello: It sounds like you have a warm spot in your heart for him.

Yergin: Absolutely. He's a delightful person.

Marcello: It seems to me that one of the significant advances during this postwar period is the entry into and the development of the Japanese market.

Yergin: Excuse me. Could I go back to MacIver for just one more thing?

Marcello: Certainly.

Yergin: There was one little incident when we were in London to finance these tankers. We had been to a number of luncheons and dinners and big things put on by the bankers, so forth and so on. Murdo was never a very slim person. For his height he was overweight, and he did like to eat. On the final night we were there, we were going to have a quiet dinner, only about eight of us, at the hotel. We were going to have a quiet dinner, and we were sitting at a round table. At the end of dinner, the waiter came around asking about desserts, and he went first to MacIver. MacIver sort of leaned back, and patting his ample paunch, he said, "Have you got a pear? Could I have fresh pear?" "Certainly, sir." It was at the Clarridge. Then he came around to me, opposite MacIver, and I, being a young lad at the time, said, "I'll have the bombe glacé," which was a big ice cream and coconut concoction. So he went off, and we went on talking. After a few minutes, they came back with the desserts, and somehow had gotten them turned around, so they put the bombe glacé down in front of MacIver. His eyes lit up and he looked at it: "Boy, this looks good!" And he went right to work on it. So I ate my pear in silence.

It was many, many years later that I told him the story, and he just guffawed over it. He said, "Did I really do that?" "You certainly did, 'Mac.'" (chuckle) He did enjoy his food.

Marcello: We were about to talk about the development of the Japanese market, and obviously MacIver plays an important part in that.

Yergin: A tremendous factor in it. Again, at the very beginning of that, I was not involved in it because I was in different parts of the business. He had a great hand in it. The Japanese market has been for us and for our shareholders a tremendously valuable part of our business all the time. During the years that I worked with MacIver and subsequently, especially during the late 1950s and 1960s, when they were expanding their volumes and therefore having to build new refineries or expansions of existing refineries, the financing of those expansions were a major part of the thing. It was at a time when finance was not easily or readily available within Japan, so Caltex made loans to the Japanese companies, both N.P.R.C. and Koa, relative to the refinery expansions or constructions. At one time, I guess in the 1960s, there was almost sort of a collaboration or almost an instigation of Japan, Incorporated--MITI, the Ministry of Finance, and so on. It was almost a standard rule of thumb that for a 100,000 barrel-a-day refinery, the related supplier, whether it was Caltex or Esso, was expected to make what they called an impact loan of something like...well, for a 100,000 barrel-a-day refinery, it was $50 million. It was sort of that order of magnitude. A 100,000 barrel-a-day refinery would cost about $100 million in those days, so you had to put up 50 to 60 percent of it. The foreign supplying company was supposed to make an impact loan, which was a long-term loan repayable over a period of ten or twelve years, as a condition of getting the supply rights to this expanded refinery capacity, because the expanded supply rights meant more profit on the crude oil you sell to them.

Marcello: You may not have been on the ground floor of this, but how was it that Caltex came together with Koa and Nippon Oil Refining Company? What's the background of that agreement?

Yergin: I can't really tell you that. That was at the time that Phil LeFevre was in Tokyo negotiating those arrangements with them. Even by second-hand accounts, I've never really known exactly how they came about getting into that.

Marcello: Let me follow through with another question, one which I think you probably would have some knowledge of. In the case of Nippon Oil and Koa, Caltex is getting involved in joint ventures. What are the advantages of getting involved in joint ventures in any country where Caltex operates?

Yergin: They are different in different places. In Japan, the joint venture was, and still is, an ideal arrangement because

Nippon Oil Company, which is the principal oil company in Japan, is a company that soon will celebrate its one hundredth anniversary--in 1988 it will be a hundred years old--so they were a well-established, top-level company in Japan. Even to this day, as you know from reading the newspapers and television, for a foreigner to get into business in Japan is extremely difficult. It was certainly more difficult in those days. We never could have gotten in, as we did in other countries, with a wholly-owned, 100 percent subsidiary run by expatriates and so forth. Really, the only way to break into the Japanese oil business was to become a partner with a company, and we were very fortunate that we partnered with Nippon Oil Company, which, as I say, was the long-established leading company. It was agreed that the way to do it was through the 50-50 owned Nippon Petroleum Refining Company. I don't know how Koa Oil got into that, but that was the other wing to the thing--the Koa Oil Company --in which we also owned 50 percent. The other 50 percent is not owned by Nippon Oil; it's owned by the Japanese public. So that is what we call the Caltex-Nippon Group in Japan. It's operated extremely successfully and has really been a model for cooperative business.

Now that kind of a partnership arrangement doesn't necessarily, from our point of view, work as well in a lot of other places because, generally speaking, the partner would bring nothing to the operation in terms of oil business. In many of the countries where we do business, there were, and still are no indigenous downstream oil companies in the country. So all you would be doing would be giving somebody an instant prosperity by inviting them to become a partner, and it wasn't necessary to do so. Most of the countries permitted wholly-owned foreign subsidiaries to operate there. Plus the fact that in the East of Suez basket and West of Suez basket, Texaco already had wholly-owned subsidiaries operating for a long, long time--as far back as 1911. So we just took over those wholly-owned operations.

There have been pressures in various countries over the years for us to invite local participation, and we've resisted it. We did let 25 percent Australian participation a few years ago, but even that's a problem because things don't turn out as well as the local owners thought it should, and then you've got problems. It's not a business that starts and ends within the country. It starts somewhere else, so there's always a potential for conflict as to whether or not the onshore business is getting the right deal or not. Certainly in the early days, when the profit was all in the crude oil and was pretty well kept there, the downstream business was not a highly profitable, in and of itself, business because in moving the oil the volume was the important thing.

Marcello: It seems to me that in many cases, when the company gets into a joint partnership, it's kind of a defensive measure.

Yergin: It can be defensive, but it can, as in the case of Japan, be a constructive measure as well. In some of the partnerships that we had in Europe, for instance, you spent more time arguing with the partner than you did in running the business. I'm not going to cite examples in those cases, but it can be a problem because of a conflict or a perceived conflict. Even if there's no real conflict there can be a perceived conflict between the local partner and Caltex, whom he knows has other interests outside. It's not a bed of roses, by any means. You don't bring the same things to it and don't expect the same things from it, so a partnership in those circustances can be a lot of trouble.

Marcello: In getting back to Japan again, on several occasions within the course of this interview, we've mentioned Shun Nomura. What do you know about him, and what is his significance to the development of Caltex in Japan?

Yergin: I didn't really know Shun. He was really getting out of the scene, I think, by the time that I became involved very much with Japan. I think you've undoubtedly gotten the story from MacIver about Shun. I do know that he was absolutely a key part to the thing, and we never would have made the deal with Nippon Oil and gotten the very important role we have there without his participation and support.

Marcello: As one moves into the postwar years, describe the role that Bahrain and Bapco plays in the development of Caltex.

Yergin: Bapco was always the really major--what we call--swing supplier of products, even when we built refineries in other countries. Initially, we did not have any; initially, Bapco was practically the sole refinery in the system. I believe the first new grassroots refinery that we built in Caltex after we acquired them was in Australia in about 1957 or 1958. Then we followed with new refineries in the Philippines and South Africa and other places. During those years, the products--and we're a product seller--were coming out of Bahrain. It was a very big refinery by world standards. In those days it was...at one time, I think it was about the second largest refinery in the world. So it was a big one, and it was very important and met almost all of our refined product needs in the area until we got into Japan and started building refineries there and in our other areas. So Bahrain was the core--the center--from which we drew all of our requirements. Then when we built refineries, of course, the crude oil from Saudi Arabia and Indonesia came into the scene.

Marcello: Relative to the development of refineries in the Far East, we have to talk about the development of the Indonesian fields and their significance in the growth of Caltex. I'd like you to discuss that.

Yergin: The Indonesian fields, as far as we are concerned, is a really important factor in our logistics. Nineteen fifty-two is the key year; that's when the Minas Field came into production. The Minas Field was developed primarily with monies from Caltex. We had started to make significant amounts of profits in 1948, 1949, 1950, because we had what we now call trading companies--international sales companies--that were making some profit off-shore on the crude oil. Caltex Oceanic, Limited was one of those. It was a Bahamas company, not subject to tax, so it had accumulated profits and cash from its role in the buying of crude oil and selling it to the Japanese and others.

When the development of the Minas Field became imminent, our shareholder companies were looking for a way to finance the development of those fields. It ended up that Caltex Oceanic, Limited made a loan of $50 million to what was then called Nederlandsche Pacific Petroleum Maatschapij--N.P.P.M.--later Caltex Pacific Petroleum Mij--C.P.P.M. We actually advanced the money as it was needed, so it wasn't $50 million at once; it was $10 million here, $5 million here, and so on, and it got up to about $50 million at the time that the production came on stream in the Minas Field. The loan was repaid with oil proceeds over the next two or three years. As the oil was produced and lifted by Oceanic, they used it to whittle down the loan. We got our money back in kind, if you will, or the equivalent of in kind. So we were really responsible for financing that initial production from the Indonesian field.

In turn, we helped to finance the building of refineries in Japan specifically designed to run the Indonesian crude oil and persuaded our associates there to build the refineries with the special characteristics needed to run this heavy, waxy crude oil.

Marcello: We talked about this off the record, and I wanted to get that on tape. What were the peculiar qualities of that Indonesian oil?

Yergin: The waxiness of it and the fact that because of that it's non-liquid at what we would call normal temperatures, so the facilities to handle it--the pipelines, the tankers, and the storage tanks--had to be equipped with heaters to keep the oil at a high enough temperature so that it would flow. If you stopped heating it, as someone once said, the Duri-Dumai pipeline would become the longest candle in the world because it would just be full of wax. So you had to have special facilities. The refineries in Japan that were built for it had to be specially designed to handle this waxy crude oil in contrast to the Saudi Arabian crude oil, of which sulphur is the principal extra component.

Marcello: Was the Batangas refinery also built with the Indonesian crude in mind, or was it taking crude from Saudi Arabia?

Yergin: My recollection is that the Batangas refinery and the Kurnell refinery in Australia were built originally for Saudi crude oil. It was some time, perhaps in the early 1960s maybe, when the Indonesian crude oil production had grown, and we decided we'd better adapt both of those refineries so that they could run both crudes or either one, as the circumstances would require. So we spent a fair amount of money in providing both of those refineries with the ability to run either Indonesian or Saudi crudes. You could not do it without making special changes in the refineries, which go beyond my expertise. I do know that, because I know we spent the money.

Marcello: What would be the significance of the Indonesian fields relative to your head-to-head competition with Shell, Standard Vacuum, or anybody else in that area of the world?

Yergin: Well, there are several things, Caltex's production in Indonesia was about 80 percent of the total Indonesian production for quite a few years. It's now about 50 percent, I guess, because other crude has been found in Indonesia. But it was the major one, and we had the access to that. It was a good crude oil for the markets, particularly because it's a low sulphur, low polluting crude oil, and it's short haul crude, as far as Japan and the Asian area is concerned, instead of having to haul it all the way from the Persian Gulf. It also met the desires of the Japanese authorities.

An objective they still have is to diversify their sources of crude oil, so they're not heavily dependent or critically dependent on any one location for their energy requirements. I well recall at one stage that as a policy in Japan they noted the fact that they were at that time perhaps 80 percent dependent on Persian Gulf crude oil and 20 percent from Indonesia. Their objective was to get it down to 50 percent from the Persian Gulf and 50 percent from other sources, with still maybe 20 from Indonesia and others. At that time, it seemed like a pipe dream--overly optimistic. There simply were not crudes, and you simply had to go with what was there. Now there are more sources, and they have diversified. The Indonesian oil to us was, in addition to being a different-type of oil--a different quality--it did represent a diversification to add to the almost exclusive Saudi crude oil that we'd been getting before.

Marcello: Like you mentioned awhile ago, that put Caltex so much closer to the source of oil.

Yergin: Yes. In the East at least but not to Europe. In Europe we still were supplying the Saudi crude oil.

Marcello: Just out of curiosity--and you'll probably have to ballpark this--what would be the differential between hauling a tanker of crude from the Persian Gulf...

Yergin: I can't even ballpark it for you. It would have varied a lot over time as the tanker rates have varied. The tanker rates vary mostly because of the surplus or shortage of tankers, not necessarily on a basis of what they cost to operate. In addition to the actual operating cost, of course, when you have a short haul, it means that one 100,000-barrel tanker can supply a much larger portion of your requirements because it can make more round trips in a short space of time than if you have to go all the way back to the Persian Gulf.

Marcello: There's another development during this postwar period that I think is pretty significant so far as the growth of Caltex is concerned, and this is the development of the military contracts for fuel oil. Discuss the significance of those military contracts to the development of Caltex.

Yergin: They fit in very well with our overall logistics, particularly Navy Special Fuel, as they called it, which was a modified fuel oil. From a refinery running crude oil, particularly if it's a relatively unsophisticated refinery, which most of them were in those days, the production was 40 percent or more fuel oil-type and only maybe 20 or 25 percent gasoline and others. In some of our markets, we really didn't have that big a fuel oil business, so we were very pleased to have an outlet for fuel oil--even this special fuel--to the Navy. It met the Navy's needs in its areas very well. Later, of course, jet fuel became also a significant factor in the military supplies. Fuel oil and jet fuel were the big products that we were supplying to the military. It was a fairly steady hunk of business, so we could count on that in our planning and logistics.

Marcello: The Navy was getting a pretty good deal, as I recall.

Yergin: They were getting an extremely good deal. We were giving them a very, very favorable price. It worked out very well for all concerned, and our facilities were in the critical parts of the world where they needed them. We were very kindly thought of, particularly among the Navy petroleum procurement people; we had a very good relationship, always, with them.

Marcello: Is this where we get into the talk about the great Bahrain pitch pond?

Yergin: (Chuckle) I had heard about the pitch pond for years before I finally saw it not too many years ago. It was where they dumped the by-product. In the processes that they had in the refinery in those days, it was beyond the ability of the refinery to further convert it into marketable product. This very heavy stuff was just dumped into this area near the refinery, and it accumulated over the years to a very, very large pool of this material. For a number of years now, we've been trying to dispose of it--clear the area and get rid of it--and maybe make some money at the same time. So all kinds of imaginative ideas have been proposed and discarded over time as to how to get it out of there and make it saleable.

It looks like we may have something going at the present time that would realize some value for it and get if off the site.

When I was there in December and saw it, it was solid. You could throw rocks out there, and they would just bounce along the top. When you get into the 130-degree days in the summer, if you go out there, you'll sink into it. Rumor has it that this has happened, so they don't know what they're going to come across when they get all the way through pumping it out.

Marcello: At this stage, I'm going to turn over the tape. [tape turned over] We've talked about some of the major developments of Caltex during that postwar period, and I want to bring you back to the Financial Department once again--the activities of you and Mr. MacIver and others. What other significant developments took place in the Financial Department that you would like to get as part of the record?

Yergin: In the postwar years, we were operating in a part of the world where there were many countries that were related to the United Kingdom in one way or another in the so-called sterling area. They were all in the sterling currency control arena, and we were selling a lot of oil from Saudi Arabia in those areas and, of course, wanting to get U.S. dollars for them because that's what we were paying to the Arabs. Even the products out of Bahrain we were selling for dollars. The problems of sterling area in the late 1940s were getting very, very critical, and the ability to get U.S. dollars out of these exchange controls and through the Bank of England was in great jeopardy.

In a successful attempt to help them meet those problems and still continue to sell our oil, we introduced massive programs and what we call the Caltex Plan. We met regularly with senior officials in the United Kingdom, Ministeries of Finance and Petroleum and the Bank of England, to discuss with them the plans that we had and the progress that we had achieved in converting dollar costs to sterling costs. We did this in a lot of ways. One of the innovative ways was that the profits we were making on our Bahrain operations were being taxed in the United States; there was no tax at the time in Bahrain. So the profits were free of tax and were being remitted to the U.S. and were then subject to the full U.S. tax. Since there was a foreign tax credit provision in the U.S. law, if Bahrain had an income tax which we had to pay, we would have been paying the Bahrain income tax in sterling currency, which would have then been allowed as a credit against U.S. income tax. In effect, Bahrain would collect the tax in sterling that the U.S. had been collecting before in U.S. dollars.

This may sound unpatriotic, but it was a simple fact of life--in order to survive, we had to find ways of maximizing the use of our sterling receipts from various parts of the world, rather than having to drag U.S. dollars out of the British treasury. So this was one of the things that was done and was a very significant part of it--that we began to pay taxes to the Bahrain government, paying them in sterling with the sterling we collected from Singapore and Hong Kong and all the other sterling area countries. We also mounted massive purchasing activities and contract procurement activities, which previously had, sort of almost by default but also by natural growth, been purchased or procured in the United States from suppliers who were handy and known to us. We made direct and forceful efforts to not only find sources, but to develop sources--to work with suppliers to improve their capability of meeting our requirements for purchasing materials and technical services and so forth from sterling sources.

These efforts, plus others, were enormously successful and were very well-received by the British and, in fact, permitted us then to continue operating in the sterling area to meet the strains of foreign exchange, which in the 1940s and 1950s were a major problem for the sterling area. Also, later on, the Caltex fiscal people, including myself, at times had meetings periodically with the other Aramco participants and with Aramco itself to talk about similar problems--not just sterling area problems, but other problems affecting the ability of the Aramco partners to move Saudi crude oil into areas which were not U.S. dollar-based areas. So it broadened out beyond the sterling, even after we had sterling pretty well taken care of. Believe it or not today, one of the big concerns then was the Japanese because we were selling enormous values of crude oil into Japan at a time when Japan was not generating enough dollars from its exports to conveniently be able to pay for it. So we similarly were emphasizing procurement purchasing from Japan, and we had a discussion, and we'd put a relative weight on how much we should emphasize sterling, how much we should emphasize Japanese yen procurement and so forth, in order to match up better with the sales that were going on.

These were significant aspects of the currency problems in the 1940s and 1950s in dealing with customers.

Marcello: Could you identify a few individuals who were playing key roles in the putting together of these policies?

Yergin: In Caltex, of course, Murdo MacIver himself was really the key party; he was the financial vice-president. He again, as I mentioned before, had the ability to develop relationships, and he had very close relationships with people in the Bank of England, the Ministry of Finance, and with key bankers in the United Kingdom, which helped us a great deal in smoothing our negotiations with them and in the regular meetings that we held to report on our progress in achieving this sterling utilization. Concerning the meetings with the Saudi

Arabians on the Aramco currency, one of the participants in those meetings that I went to was Eddie Wolahan, who is now treasurer of Texaco and happens to be the twin brother of our own Jimmy Wolahan. Eddie was Texaco's representative on the Aramco currency meetings.

So we had a lot of things going at one time. We were selling crude oil to Egypt, and Egypt, of course, had no dollars, either, to buy oil. So we were selling them crude oil, and we had arrangements with them under which the proceeds would be deposited in Egypt or kept in Egypt from our sales to them. Part of it, maybe 30 percent, would be remitted currently in dollars, and 70 percent in Egyptian pounds. It would be put into what would be called an entitlement account --dollar entitlement--and we then had to realize those by making use of them. One of the principal ways to make use of them was to sell cotton. So we were in the cotton business. We were dealing with the world's cotton brokers--buying Egyptian cotton and selling it to them, thereby getting the dollars from our entitlement account. We also had a canal toll entitlement account, where the tolls for shipping through the Suez Canal...we were allowed to use these Egyptian entitlement pounds for paying what otherwise would have to be paid in U.S. dollars. These were some interesting complications we got into in selling oil for dollars to some countries that didn't have the dollars to pay for it.

Marcello: Is it safe to say that up to the formation of OPEC, prices and so forth and so on were pretty much cut and dried?

Yergin: They weren't cut and dried; they were set by competitive forces. What OPEC did when they came along was set them on bases other than market prices, by artificial controls on the prices and on the suppliers. They were cut and dried in the sense that we knew what would happen and we could predict what was going to happen based on economics rather than on politics. Yes, that sort of thing is true. It was economic determination rather than being subject to uncertain political things.

Marcello: Perhaps you could plan a little bit farther into the future on that basis than on these other uncertain factors.

Yergin: Yes. Planning in those years, as far as crude oil was concerned, was very simple. I recall it very well. The planning process was that we first determined how much oil we needed based on projections of consumption patterns in our various areas; the second stop was to determine how much crude oil we had from a place like Indonesia or Iran or something; and then the final step was Arabian oil to fill out the balance. There was no problem with how much; whatever we needed, that was it, and Arabian oil would supply it. So we had a bottomless well, as far as availability of oil was concerned, in those days.

Marcello: Still, that's where the profit was.

Yergin: Yes, definitely.

Marcello: At the well.

Yergin: At the well, right.

Marcello: In the late 1950s, Caltex underwent a reorganization.

Yergin: Internal.

Marcello: It was an internal reorganization--the division into Caltex East, Caltex West, and Caltex Services Company.

Yergin: Right.

Marcello: Give me some of the background on how that came about.

Yergin: It was a fad at the time to have yourself "McKinsey-ized," so we had McKinsey come in and look at our structure and tell us it should be different. Years later, we decided to go the other way again and go back. That was an effort simply to look at management, which had just kind of evolved and grew like Topsy, to see whether there was some better way to do it, and this was the recommendation they made and which we adopted--to establish the separate companies. They were called companies, although they were corporately not separately incorporated, but as Caltex East Company, Caltex West Company, Caltex Services Company. Each company had a president and its own financial and refining and every other specialty--marketing and so forth. They were sort of self-contained. I guess it was a mini General Motors, sort of; that was the General Motors concept at the time. So we kind of split in that fashion, but we still had a corporate headquarters.

I was never in any one of those three. I was in corporate by that time; I was in corporate finance, in fact. My title was manager of corporate finance. So I was looking after the end result, which was the total corporation, as far as the financing end of it was concerned.

Marcello: At the time, that is, at the time that the reorganization took place, what were the alleged or perceived advantages?

Yergin: I can't help you on that; I never saw any (chuckle). It must have involved whether they thought that it was too complex for people to be able to deal with the whole range of things and more efficient to break it up into pieces, I guess.

Marcello: Let me follow that through, then, with another question. As you look back on that reorganization--I'll give you a chance to do some Monday morning quarterbacking--how did that reorganization work out?

Yergin: I don't think it worked very well. If I can divert from it slightly, Caltex, although it's a big company by any standard you want to apply to it, from a management style point of view and a headquarters point of view, it's a relatively small, informal company. We don't operate the way...we don't have multi-line or a conglomerate kind of thing. We're a fairly straightforward thing. We're able to--as we do today--oversee this with a relatively small group of people here, all of whom are kind of involved in the whole thing. We were never really like a General Motors, which has tens of thousands of employees and multi-layered management structures and different lines of business and so forth.

So I think it was inappropriate to try and apply those concepts to Caltex. It resulted in things like, for instance ...we now have, for example, as far as people are concerned, now have here a Personnel Development Committee which is chaired by the president and all the vice-presidents and the general manager of personnel, and they sit down and they review, every month or so, the people in the company--the positions that are open and need to be filled, people who are available and need to be placed. I'm not talking about stenographers and things, but people in even the middle and upper management levels. We did this some years ago in order to be sure that we were not being parochial or compartmentalized, so that people could be drawn from any part of the company for some other position. Without that, we found that sometimes, when a position needed to be filled, the guy responsible for that area would just look amongst the people who were in that area to see who could fill that job; whereas, actually, there might be someone more appropriate or better for his development way over in another part of Caltex who would better the thing. This is one of the disadvantages of that separation into totally vertical company distinctions. You lost the advantages of making the best use of everything across the board. Even the financing, cash flow, banking and all those things are not best served in our structure by having separate compartments. There really requires an ability to look at the total picture and be able to make the most effective use of the people as well as the resources right across the board.

I think the integreated structure we have now is far better. We do have now four regional vice-presidents who are separately responsible for different geographical parts of the operations, but not in the sense that this Caltex East-Caltex West was. They are simply the reporting officers to the Executive Committee and board for their areas.

Marcello: Your assessment of that reorganization more or less confirms what most of the other people have told me about it, also. One of the other things that we haven't talked about at this point is the evolving relationship that developed between Caltex and the shareholders. Talk a little bit about that evolving relationship between Caltex and the two shareholders.

Yergin: I don't know whether it's ever evolved; it's always been there (chuckle). I've frequently and facetiously described Caltex as a 60-60-owned company; in other words, they each act like they own 60 percent rather than 50 percent. There are sometimes problems.

If I might, rather than answer that one first, let me go back to another point which has a bearing on this. As I mentioned early on, Caltex acquired the West of Suez or European companies in 1947. In 1967, we spun them off and spun them back to the shareholders. That was the result, as far as I'm aware...I've never discussed it with those who made the decision, but it seems pretty obvious that in 1947 and before that and for some years after that, the concept of Caltex as the outlet for oils produced from properties jointly owned by Texaco and Chevron was the driving force for Caltex. That was our reason for being, and it is still the reason for being where Caltex operates now. But in the late 1950s and early 1960s, Texaco, firstly, acquired Trinidad Lands and Leaseholds. Trinidad Lands and Leaseholds, I believe, they acquired primarily in order to get the Trinidad refinery and those properties, but it happened, coincidentally, that Trinidad Lands and Leaseholds also owned 50 percent of Regent Oil Company, the other 50 percent being owned by Caltex. So all of a sudden, Texaco now had 75 percent direct and indirect interest in the United Kingdom, and Chevron had only a 25 percent indirect interest. So that was the first strain. The fact that Trinidad was an export refinery, and therefore its logical watershed was to western Europe with the products, introduced a logistic variation for the first time in the common interest in moving Persian Gulf products into Europe.

Shortly after that, a couple of years later, Texaco bought Deutsche Erdoel in Germany, one of the major companies in Germany. That threw them into direct competition in Germany with Caltex. Again, another strain was introduced by a conflict of interest between Chevron and Texaco within Europe. So I think the split in 1967 was the inevitable consequence of those strains in the relationship.

As a side effect, Europe had been a big losing proposition for quite some time--I touched on this earlier--because of the extreme competition from North African crude in particular. It was a very unprofitable business. There were countries and years when the downstream was losing more money than the oil production upstream was making, so it was an overall in-the-red situation. It was a tremendous strain on both Caltex's earnings and cash.

I became financial vice-president of Caltex almost the night before the split in Europe was announced, although I'd been on the financial side for many years before that, so I knew the thing would happen. I've often said since then that as a financial vice-president, I couldn't have done a better job, myself, of divesting of the cash and earnings drain operations that we had. So I was not the least bit unhappy to see Europe and the tanker companies get out of our system and pass back to the shareholder companies.

What I was starting to say was that I think that some people in our shareholder companies were--unjustifiably, perhaps--critical of why we were losing so much money; that we didn't know how to run the business, and, by God, when they took it over, they would turn it around in a hurry. This was true in the United Kingdom as well. After a couple of years went by, they had a much greater respect for Caltex's managment and our knowledge of the business and our abilities because they learned what we knew already, that they were not profitable businesses to begin with. There were just too many problems in them.

In any case, that was what I believe caused the split in Europe in 1967. What we had bought for $28 million in 1947 was spun back at a tax-free reorganization value of something like $400 million--not because we'd earned that much but because a lot of money had been put into it in the meantime.

Marcello: You've talked about the unprofitability of the European operations. This also brings to mind the Frankfurt refinery and all the problems that Caltex seemed to have with that Frankfurt refinery in terms of getting it built and accidents there and so forth.

Yergin: Bill Tucker probably gave you a better story than I can on that. I wasn't directly involved in those problems, thank goodness.

Marcello: At this point then, in 1967, Caltex was in a sense, I think, maybe going back to what it felt more comfortable doing.

Yergin: That's right--getting back to the earlier territory.

Marcello: Is it safe to say that it perhaps did feel more comfortable working East of Suez than in Europe?

Yergin: Absolutely. It was interesting working in Europe, but it was a problem. It was certainly, I think, more comfortable working with the old East of Suez areas, and certainly more profitable. We've made profits right from the day that we spun off Europe on through. It's been profitable and able to pay its own way and contribute a lot in earnings and cash to our shareholder companies from this part of the world.

Marcello: Going back to the area East of Suez, talk a little bit about the development of the Korean market. Of course, here we're talking about Caltex and the Lucky-GoldStar Company.

Yergin: Our involvement in Korea actually goes back a long way, but it wasn't until 1967 that we sort of reentered Korea. We had been in Korea back in the late 1940s and the 1950s, but in a different kind of a role. We ran a Korea Oil Storage Company in the 1950s, but we'd never really been in the downstream in any significant way. By the middle 1960s, the oil business in Korea was run as a monopoly by the Korean Oil Company--Koco, as it was then called--in which Gulf Oil had a 25 percent interest.

So it was in 1967 when the government, I guess, let it be known that they would be receptive to some other entrant into the oil business. We actually came on the scene a little bit late. We made the partnership a joint venture arrangement with Lucky Chemical. Lucky Chemical was a very successful--and since then even more successful--major company in Korea. They had negotiated with the government of Korea to obtain the rights to build this refinery and to get a foreign partner in the venture. So we negotiated with Lucky Chemical, and the result of it was that we agreed that Caltex would finance and manage and construct the refinery and would get a 50 percent interest in this new company called Honam Oil Company. They would own, essentially, the other 50 percent, although it was never a simple 50 percent (there were several Korean parties associated with Lucky). The agreement was signed in May of 1967, and the refinery was started and completed in almost record time, I guess, and at a very good total cost.

Marcello: What were some political considerations here relative to the location of the refinery?

Yergin: The major consumption area--the Seoul area or Inchon area--would have been desirable; the Koco refinery was already over in the Pusan or southeast area. I think we would have preferred to put it up closer to the Seoul-Inchon area, but

President Park was adamant that he wanted it in Yosu because he wanted Yosu and that part of the southern coast to develop as a major industrial area of Korea. It had to be built at Yosu. Yosu at that time was nothing but a farmland-fishing area. There were hardly any roads or anything down there. We built the refinery, and for a number of years after it was finished, except for the refinery, there was nothing there. But today, it's an entirely different thing. They've got lots of industrial plants and power plants and so forth, so the intent has been carried out.

Marcello: We haven't talked at all about the development of the Australian market. I assure you, however, that we're not going to go through every country that Caltex does business with (laughter). I think the development of Caltex in Australia is a very important part of the history of Caltex in the Far East. What do you know about the development of the Australian market?

Yergin: It was, of course, one of the original East of Suez basket companies, and it was operating originally as Texaco—going way back to the World War I time. So it's a long-established factor in the Australian oil market. We built the refinery... I mentioned earlier it was our first grassroots, wholly Caltex-owned refinery in the late 1950s. I think it was finished about 1958. We also had an interest in, and helped Boral to get involved and to build, an asphalt plant in the Sydney area, and we had relations with Ampol and H.C. Sleigh, which were two other Australian oil companies. When we built the refinery, we were able to also supply some of their needs. Caltex's Australian business really grew just like any oil company here in the U.S., with a marketing and service station distribution system throughout Australia.

Marcello: You mentioned this previously, but I want you to expand on it. What do you know about the decision to sell an equity interest to the public in Australia?

Yergin: That came about as a confluence of events. We had been for years studying possibilities for merging with or taking over some kind of closer affiliation with Ampol or Sleigh or both or Boral--our partners, really, or our closely allied customers. We had file cabinets full of studies--financial studies and so forth--of the pros and cons of these things over the years. By the late seventies, it was becoming evident that particularly H.C. Sleigh was having difficulties in running their oil business. They were in a number of businesses. Oil was the original one and was still a major part of it. They were having difficulties because they did not have their own oil refinery; they simply processed or bought oil from us. They were finding it increasingly difficult to have no sources of oil of their own either, so they were finding it increasingly difficult to make a go of running the oil business themselves in that kind of disadvantaged fashion.

We didn't want to lose the business of Sleigh that we had, because it was an important part of our utilization of the capacity of the Australian Oil Refining Company. As I said, we had made studies over the years of things, so we had another in-depth look at it to see whether or not we could justify making an offer to purchase H.C. Sleigh and blend it in with our own operation in such a way that we would preserve the refining utilization advantages and get some synergistic effects from blending the marketing down-stream-service station business with our own. We concluded it was a good thing; it was desirable, and we could make them an offer.

Sleigh, however, was a wholly Australian company, owned by Australian citizens--a public company. At that time, Australia had taken a pretty hard line about trying to control encroachment of foreign investment to the detriment of local investors, so we were pretty sure that if we just went in and said we wanted to buy this out, there would have been opposition. It would have taken us a heck of a time, if ever, to get the approval of the Foreign Investment Review Board.

To make a long story short, we decided that it was timely to invite--for that and other reasons--Australian shareholding participation in Caltex in a new expanded and merged company taking over Sleigh. The sale of 25 percent interest was very definitely tied with the whole concept of acquiring this wholly Australian company, H.C. Sleigh, and making it part of now a partly publicly-owned company, Caltex. So it was a confluence of events at a particular point in time which made this desirable and possible.

Marcello: How was that arrangement worked out?

Yergin: With great difficulty and long hard negotiation because it involved not only Sleigh and Caltex, but the government and several departments of government to make all the parts come together. It was quite an involved negotiation and process. From a financial point of view, it worked out very well because the sale of 25 percent of Caltex to the public provided us with a source of funds which helped to pay for the acquisition of H.C. Sleigh. We also borrowed a good bit of money related to it. In any case, those things were all done in relation to each other. The acquisition was made, and it took quite a bit of doing to integrate things because their style of management had been quite different from ours, and we felt there were great inefficiencies (a lot of extra people, etc.). In point of fact, today we're operating the merged operation with fewer people than we had in our company at the start of this thing. In effect, we've been able to operate with less people than we had in our own operation before we started the merger.

We ran into a very difficult time in the marketplace right after that. It was no fault of ours or theirs or anyone else's--it just happened. There were a couple of tough years there.

Marcello: There's one other country or area East of Suez that I want to get your thoughts on, and these are Malaysia and Singapore. Caltex got in the market there pretty late, did they not?

Yergin: Yes, indeed.

Marcello: What was the reasoning for that?

Yergin: Because we'd never been in it, to begin with. I don't know the history of that. That goes back long before my time. But unlike other areas where we had companies that had been in the business there for fifty or sixty years, we'd never been in the downstream, that is, the white oil, business in Singapore or in Maylaysia. For many years we had been a supplier of fuel oil to the power stations in Singapore, but only that and a few lubes and specialty products. I don't know why that was so; it goes back before my time.

It was only in fairly recent years, historically speaking, that we decided to get into the white oil business. Getting into the white oil business anyplace is not easy; it's very difficult. It's very highly competitive. In Singapore we now have a reaonably good competitive position--not as strong as we would like, but it's too bloody expensive to try and take it away from people like Shell and others. But we do have now full participation in Singapore in the other products besides fuel oil

In Malaysia we really were not in at all, as far as I can recall. We just really started from scratch there, relatively. I can't remember how many years ago, but it was a relatively short time ago in terms of the history of Caltex. Malaysia is a very encouraging-looking country. They've got a lot going for them. They have their own oil production, as you know, and they are doing some of the right things in terms of developing their economy. So we're optimistic about the future progress in Malaysia.

Marcello: According to my notes, there was a partnership established with the Singapore Refining Company as late as 1980. Is that correct? I think Caltex has a 30 percent interest there.

Yergin: Yes. We had never had a refinery in Singapore, or an export refinery even, other than the Bahrain refinery. The opportunity presented itself to get into this Singapore Petroleum Company. The Singapore Petroleum Company was a combination owned in part by the Singapore government, in part by Amoco, and a couple of others. They were not having too easy a time of it, again because of changes in the worldwide structure of the oil business. So they were looking for some help at a time when we were receptive because we felt we could make use of an export refinery in that area--partly to meet our Singapore needs but also to export into the area as another anchor to help us with things that were happening in Bahrain and the Persian Gulf.

We looked into it and got into proposals, and B.P. (British Petroleum) was interested. The upshot of all of it was that Caltex and B.P. bought into the refinery on an arrangement which included that we would finance the expansion --a whole new 100,000-barrel-a-day expansion of the refinery --and would end up with a one-third, one third, one-third interest in the expanded S.R.C. That worked very well, and we were very pleased with it. Singapore is over-refineried without any doubt, and other refineries are closing; but our refinery, we still feel to this day, is a viable one. It's modern compared with some of the others and suited to the needs of today and the processes required today.

Caltex Oral History Project

Howard Yergin

Place of Interview: Dallas, Texas Date of Interview: January 24, 1986

Interviewer: Dr. Ronald E. Marcello

Marcello: This is Ron Marcello interviewing Howard Yergin for the Caltex Oral History Project. The interview is taking place on January 24, 1986, in Dallas, Texas. This is the second interview with Mr. Yergin concerning his experiences while employed by the Caltex Petroleum Corporation.

The first topic I would like to discuss today concerns the formation of OPEC and, in essence, its effect on the operations of Caltex. From what you know, how and why was OPEC formed?

Yergin: OPEC, in my recollection, began to come into existence back in the middle or latter part of the 1960s. This was at a time, as I mentioned earlier, when crude oil prices had been falling because of the excess competition due to newly discovered North African fields. The prices had gotten down very low, and the producing governments realized they had to step in and do something about it. They were also mindful of the fact that whereas the crude oil was being sold for a little over a dollar a barrel, at the same time the price of gasoline, particularly in Europe, was well over a dollar and in some cases two dollars a gallon. So there was an enormous disparity between what the consumers were willing to pay for the refined products and what the oil producers were getting for a natural resource. Most consuming governments imposed very heavy excise taxes as a manner of raising revenue for their own country. Still, the fact remained that the consumers were paying that kind of a price for the gasoline in the marketplace, which was enormously higher than what the producers were getting for the basic resource. That, together with the actual declining price, was the thing that really prodded them into doing something to try and turn this around.

Marcello: It seems to me that I've heard or read that one of the agencies the members of OPEC went to in putting together the organization was the Texas Railroad Commission, which practiced some of the same things. Do you know if there is any validity to that?

Yergin: No, I don't. It would be logical. Whether they went to them or not, they certainly were well aware of the control that the Texas Railroad Commisssion had on production of oil in Texas. They would like to have had something like that among themselves. The difficulty, of course, is that the Texas Railroad Commission was one body, and the producers (OPEC) were many. There wasn't one body who had a single-minded purpose to it. It always has depended on, and still does to this day, the willingness of all the members to play ball according to the rules.

Marcello: Even in the beginning, did Caltex and other companies in the business see OPEC as a monolithic, single-purpose organization as was perceived by people in general, or even in the beginning did you see that there was the possibility of this fragmentation and so on?

Yergin: We, I think right from the beginning, were doubtful that they could get their act together because there was such a disparity among the participants in OPEC in regard to their volume of resources and production and the degree of dependence they had on the revenues derived from it and so on. Plus, they were geographically widespread, too. There had been no great history of cooperation among those countries, so we were a bit skeptical about how they would be able to function.

Marcello: How did the formation of OPEC change the relationship between the company and the various governments?

Yergin: Well, OPEC was effective fairly early on. They stopped the erosion of the crude oil price and began to push it up gradually at first. This was something that clearly they were able to do. All it took was some backbone and the will to do because they were in control of the resources. As an aside, people talk about the enormous power of the big oil companies, and that's a myth because they're guests in these countries, and the local government, no matter how small the country is, has the sovereign power to deny even a Royal Dutch Shell or an Esso if they want to. They did have the power to set the rules and put limitations on it. They did so, and the companies had to live with it.

Marcello: I think this was basically an experience that Caltex was familiar with prior to the establishment of OPEC. Just the mere expropriation of refineries or a government buying a refinery, I think, was evidence that Caltex was a guest in that country and you were more or less at the mercy of those governments.

Yergin: Caltex, of course, throughout its existence as well as that of its predecessor companies, has always been entirely an international company outside the United States, so we've always been very mindful that we're a guest of the country and subject to the laws and the will of the local governments. So we've actually conducted our business with that in mind always. If we don't justify our being there as a good corporate citizen, we risk losing our role there.

Marcello: How did the oil embargo of 1973 affect Caltex?

Yergin: It was quite severe, and, of course, it gave impetus to the following price increases. It was a very strict embargo. While it was not directed against the countries where Caltex generally did our business, it did limit the availabilty of crude oils everywhere. It made it necessary for us to act as sort of an arbiter or a judge to determine how much oil we should make available out of a less than adequate supply to all the companies we operated in. We did that, I think, very effectively and very fairly by keeping it on a fair share basis--everyone sharing the misery equally. We were able to cope with it pretty well.

Marcello: Was this shared by the host countries? In other words, did they understand the problem that Caltex had?

Yergin: Yes. In fact, we got praise from many countries who felt that we had done an outstanding job in helping them to cope with the extraordinary situation. Again, because of our diverse sources of oil, we were able to make the best possible use of all of our avails to ease the pain, which would not have been the case if we'd been dependent on only the one source.

Marcello: So even during the oil embargo, then, you are getting oil from Saudi Arabia and other countries...

Yergin: It was not embargoed except to the United States and Europe. Of course, in the countries where we operated, we were able to continue supplying them.

Marcello: What effect did the formation of OPEC have upon the relationship between Japan and Caltex?

Yergin: Initially, it didn't really have any great impact on us. The consequences of it in terms of pricing, of course, had to be borne as everyone had to; but it didn't directly interfere or impair the relationship that we had with our Japanese affiliates. In fact, initially, during the early part of the seventies, when there was a general feeling that oil was becoming in short supply and would continue to be in short supply, our Japanese affiliates, I would say, relied even more heavily and stressed the fact that they relied on us. We were the experts, and we had the resources, so we should do our best to meet their needs and find oil for them if it came in short supply.

Marcello: What effect did OPEC and the price increases have on the operations of Caltex in Third World countries?

Yergin: The problem, of course, in the Third World countries, especially, has always been and still is to this day a shortage of foreign exchange and the very heavy burden that the import of petroleum has on their total economy. Very few of them had any oil resources of their own, so the increased prices, which resulted from the OPEC actions in the mid-seventies, were pretty devastating and still are. We hear now about the big debt problems that these Third World countries have, and the origins of those debt problems really were back in the mid-seventies with the huge increase in price. They had to go out and borrow the money.

Marcello: At various times in the 1960s and 1970s and even as late as 1980, various Caltex properties were either expropriated or nationalized. I'm thinking of Ceylon in 1962 and 1963 and South Yemen in 1969 and, I believe, India in 1976 and then gradually in Bahrain in 1979 and 1980. Was Caltex during the early period formulating any plans or policies relative to reacting to or meeting the possibility of expropriation and nationalization?

Yergin: No, I think not. These things were all kind of individualized circumstances which were largely not predictable. There wasn't really much of anything that could be done to head them off. India was one of the most significant areas. India had been a very large Caltex factor for many, many years. We'd been there since before 1920. So that was probably the biggest loss that we had apart from China. China was even bigger. In China, I think the handwriting was on the wall for some time. India was a case where the Indian authorities simply decided that they wanted to take over and run the oil business themselves. They didn't expropriate, but they forced the sale. We were the last company to be bought out or to sell out under pressure. There really was nothing we could do about it by that time especially, since we were the only one left. So we went along with it and made a negotiated arrangement for them to pay us, which they did over time.

There wasn't really anything one could do that would avert any of these possibilities or even to ameliorate them.

They just happened. Generally, we were paid for such take-overs, with a couple of exceptions. It was unfortunate to lose them. We'd rather be there, but these were national priorities that they had, right or wrong. We had to live with it.

Marcello: In the case of India, what kind of compensation did you receive? I'm not talking necessarily in terms of dollars and cents, but what kind of compensation did you receive relative to Caltex's assets there?

Yergin: It was pretty full compensation by their standards because it was payment in U.S. dollars based on the book value of the assets. We got a little more than the book value, but they initially were holding out for book value, and we were, of course, negotiating for a market value for a going business, which would be quite a bit higher. We finally compromised on something that was more than bare book value but not as high as we felt we should have gotten on a market realization basis.

Marcello: Do you have any leverage at all in a situation such as India?

Yergin: Not really. The only sort of leverage that I can see that existed in any of these places was the leverage of public opinion. If the taking-over country did it in a reasonable fashion and made arrangements to fairly promptly pay a "reasonable" compensation for the assets taken over, this was a longstanding and accepted concept of the sovereign right of nations. The United States had enacted...I forget the name of the bill now, but it was, in effect, acknowledging that a country had the right of expropriation of properties within their own borders, but if they did not fairly and promptly compensate American interests, then the United States would take action against them and deny them credits and export rights and so forth. That was a pressure that we had.

Plus, as I say, in a broader sense, except for Communist countries, which were closing their borders, countries like India, Bahrain, Saudi Arabia and so forth intended and wanted to continue doing business with foreigners. If they were perceived to be just arbitrary, cutting you off and giving you nothing, virtually, it would damage their reputation in the international scene, and they would lose more than they might have gained. So that was a point that was in our favor in terms of reaching some kind of a solution that was acceptable.

Marcello: I also read with interest the process of nationalization and compensation that took place in Bahrain, in 1979 and 1980. I guess what I'm thinking is that that must have been a psychological blow as much as anything because you'd been in Bahrain for so long.

Yergin: Yes, except that Bahrain came after it had already happened in Saudi Arabia. The handwriting was on the wall; it was inevitable that the Bahrainis would have to follow the precedent set by their neighbors in Saudi Arabia and Kuwait and Iran and so forth. We did rather well to have it delayed, really, compared with the others, so that it happened later than it did in the other places, and it was done in a reasonably friendly negotiated way, acknowledging the inevitable. In the case of Bahrain, Caltex had and still has to this day a very close working relationship and friendship with the ruler of Bahrain and all of his people. They recently reaffirmed their wish for Caltex to remain in Bahrain for a long time to come and to continue to work with them.

It's different in other places. Saudi Arabia and some of the others more or less took the view that they could run it themselves and that they didn't really need these other things, so they were going to take control of their own destinies and so forth. Bahrain was a different situation, I think.

Marcello: Is it not true, at least in the case of Bahrain, that Caltex even helped the Bahrainis get into other economic activities?

Yergin: Yes. Long before the OPEC thing came along, Caltex, or Bapco really, was the dominant economic force in Bahrain and was responsible for training and educating many Bahrainis and providing employment. Yet the oil fields in Bahrain were known to be limited and would be declining. We, together with the government, became concerned about what would happen in the longer term future. We undertook, at Caltex's expense—more than once, but one time in particular—a major study of Bahrain—its resources, its capabilities, and what it might do to better fit itself for a longer term future. Such things as aluminum plant--Alba--and the dry-docking business and so forth, were, if not directly, at least indirectly, the outgrowth of those studies that we had done in order to help the Bahrain government assess their potential for the future.

Marcello: I think there was even a shrimping business that was established for a time, was there not?

Yergin: Yes. Of course, their intention was to expand Bahrain to become a financial center of the Middle East, particularly after Beirut lost its position, so many banks opened their shops in Bahrain. At that time we were losing good fiscal people right and left because they were all being hired by the banks. If they spoke English and had some knowledge of debits and credits or anything to do with fiscal matters, they were highly desired by the new opening banks. We simply couldn't compete by paying enough to offset the advantage that the banks had in getting them. So we were staffing banks and everything else from our pool of Bahrain talent.

Marcello: How do you explain the long-time cordial relationship that developed between the company and Bahrain?

Yergin: It was people, of course. People are so very important, and we had some very fine people from the Caltex side at Bahrain. It was also, beyond that, a realization and recognition by the Bahraini government that Caltex--Bapco--was extremely important to the health and economic welfare of Bahrain. One significant factor that makes Bahrain different from Saudi Arabia, Kuwait, Iran, and so forth is that Bahrain's position was not solely a production of crude oil and sale. Their crude oil production possibly topped out at about 60,000 barrels a day and is now down to about 40,000 barrels a day, but they had a very large refinery--more than a 200,000 to 240,000 barrel-a-day capacity. So the sale of crude oil from their own sources was one part of the activity of Bapco, but another very large activity was processing crude oil that was brought into Bahrain from Saudi Arabia and the selling of those products. That supplemented the income and the employment activity on Bahrain as a result of our activity. For that, they needed us because the sale and disposal. Finding markets for 240,000 barrels a day of products was not an easy thing to do. They didn't have any experience or ability or contacts to do that, whereas we could use it, as we had always been doing, in our worldwide markets. So they needed us more than, say, the Saudis needed Aramco, or the Iranians and so on.

Marcello: There's another topic that I need to discuss, and I think it to some extent goes along with our current comments relative to OPEC and nationalization and so on. I'm referring to the transfer price. Would you explain for me what the transfer price is and how it works?

Yergin: What's referred to as the transfer price is simply the price at which the crude oil is sold to trading companies, which then sell it in turn to the countries which need it--other affiliated companies, or third parties, or whatever. They use the term transfer price to really mean the selling price. It's the selling price.

Marcello: What effects did it have on the countries involved? I guess what I'm saying is, was this something that was more or less played down and kept low-key, or was it pretty common knowledge?

Yergin: There were posted prices. Today they're called either GSP (Government Selling Price) or OSP (Official Selling Price). In those days they were called posted prices, which in theory at least was a price that was in fact posted on a door somewhere and was the price at which one would sell oil to a willing buyer.

For many of the years, particularly through the sixties and so on, the posted price was also a price agreed by the local authorities in the producing country as the price on which they would base their taxes. This became a serious problem because once posted prices were set, the governments were very loathe to allow any reduction in those prices, so it came to be that they would continue to assess their taxes on the basis of posted prices, even though the actual transfer prices, if you will, were considerably lower than that. Although they might have a nominal income tax rate of 50 percent, that was 50 percent based on posted price, whereas on your actual realized transfer price it might represent 80 percent or 85 percent, depending on how much discount had to be given off posted price.

So the posted price structure came to be a real troublesome burden for the oil companies. Therefore, at one time we were able to negotiate in Saudi Arabia as well as in other areas realization price bases, which meant that the tax reference prices would be based on the revenues obtained on sales to bona fide third parties. Then we could use those same prices as a basis for selling to our affiliated companies and to pay taxes on it.

Marcello: It seems to me that one of the results coming from the formation of OPEC and then the alleged energy shortage and so on was that Caltex began to look for alternate sources of energy. It started to look for ventures into alternate sources of energy. Give me some of the background on that.

Yergin: Caltex was not so much like the rest of the industry. Caltex itself has not been in the business of exploring for and producing crude oil for a very long time. Our parent companies, Texaco and Chevron, do the exploration and production of crude oil. Certainly, OPEC and the pricing actions taken by OPEC, which in 1973 and 1974 began the upward spiral, as well as the use of oil as an economic weapon, which was frequently cited by Mr. Yamani, really got the wind up in the rest of the consuming world, so the tactical, political, and the economical reasons for finding alternate sources of energy became extremely important in the 1970s. The upward movement in the price of crude oil, of course, on a purely economic basis made it economical to spend money to look for oil, whereas the previous price of $1.25 a barrel didn't justify spending anything to look for oil. That was an economic driving force, but certainly the alarming use of the oil weapon through the embargo as a political pressure tactic is deeply embedded in the minds of the developed countries and consuming countries now and is, I think--my personal opinion--still very much in their minds and will continue to be very much in their minds and can't be erased by any words today. So when OPEC now talks about wanting their fair share of the consumption of oil, I don't think they're going to get very far with it because they showed their colors. I don't say that with animosity; it's simply a fact. They did show that they could use political objectives as a reason for curtailing production, but the developed consuming countries simply cannot allow themselves to be subject to that sort of pressure. So that really motivated the search for oil from other geographical and political areas as well as the economics of that, and the economics of finding alternate sources of energy came about both due to the price and also due to the generally accepted perception in the late 1970s that oil was running out and that within the lifetime of people now living there would be a great shortage of oil. So that necessitated a drive toward alternate sources of energy.

Marcello: Was this a gut-wrenching decision for Caltex to get involved in something of this nature?

Yergin: No, because we didn't get that deeply into it. We started looking at alternate energies, but coal was the only one that we actually spent any significant amount of money and got into in Australia.

Marcello: This was the Bayswater Colliery.

Yergin: The Bayswater Colliery, which we purchased. We were also looking at and did a lot of research and study on geothermal energy, particularly in the Philippines, but we never did go ahead with that. It's still a possibility, but not a very current item at present. The Philippines does have geothermal energy, however, and they do use it to a considerable extent, but we don't have geothermal plant in the Philippines now.

A good bit of the activity toward alternate energy sources has been cooled down in recent years as the perception of the ability of oil to meet energy needs has altered. The consumption of oil is no longer rising the way it was in the 1970s, so that alone extends the expected lifetime of the crude oil resources. The decline in the price of crude oil also economically rules out the possibility of developing things like shale oil and some of the more exotic substitutes.

Marcello: How profitable has been the investment in the Bayswater Colliary?

Yergin: It's been disappointing, I would say is the best way to say. We're currently operating it on essentially a pay-its-own-way basis. It's not contributing to our overall profit, but it's also not a drain on us, either cash-wise or earnings-wise. Its future really depends on the worldwide coal market price, which has been in the doldrums for some time. If it picks up, then that could be profitable. Our original reason for going into it is no longer there, which was the feeling that coal was rapidly going to take over fuel consumption. Now we see other kinds of energy--gas and liquified gas and so forth--being much more convenient and available and easily transported. I wouldn't say this has put coal into a back seat, but it certainly has caused people to curtail the very optimistic projections of the use of coal.

Marcello: It seems to me that another significant trend in the history of Caltex is its reentry into China, which, of course, is now the People's Republic of China. Give me some of the background relative to the negotiations that took place by which Caltex regained a foothold on the Chinese mainland.

Yergin: I suspect you already have more firsthand knowledge of that than I do by having talked with Mr. Voss because he was the principal motivator and farsighted viewer who saw the need to reestablish Caltex's role in China. He visited China very early on, soon after President Nixon's initial visit. The fact that Caltex had been a very large factor in postwar China and had a good reputation--there were still people in government in China who remembered that--served us in good stead. Jim Voss himself was always very well-liked by the Chinese, had a good rapport with them, so his visits--and he made a number of visits in the 1970s to China--followed by other Caltex executives to expand the number of the people in Caltex who knew the Chinese have been quite useful. I would have to say that we have no great illusions about getting back into China the way we were before; I doubt that that's going to happen. So the kind of business we're doing is quite different from what we did before.

Marcello: I think you mentioned this in our interview yesterday, but relative to the reentry into mainland China, what was done about reparations and compensation for the Caltex property that had been there and which was subsequently seized by the Communists?

Yergin: That had already been resolved subsequent to President Nixon's reopening of relations. An agreement was reached as part of that that the Chinese would honor claims by American citizens and corporations for damages arising out of the 1949 actions. I don't recall now how they specifically arrived at how much money overall the Chinese would pay against these claims, but it resulted in our getting something over 40 percent, which amounted to about $6.5 million, from the Chinese.

Marcello: You mentioned a moment ago that you certainly don't expect Caltex to attain the position that it had previously had in China. Why is this and what are the problems?

Yergin: For the same reason I don't expect we would get back into India in the same way. They are well-established now; they don't really need to have foreign oil companies come in and do the downstream marketing service stations and so forth. They have their own systems, and they seem quite happy with that and will continue that way, so the role that we have to play is one of supplying needs to them of, in some cases, even crude oil but also specialty products with which they can't fully meet their own needs--lubricating oils and so forth. We can also work with them on technological transfers, things that we can help them with--the construction of plants or the design of such things. There are many facets to the contacts that we have with them. I wish it were true that we're making tens of millions of dollars out of these, but the fact is that it's relatively modest. But like everyone else, we see the one billion or more consumers in China, and it's too tempting to not stay in there, at least, and see what we can do.

Marcello: In other words, you still can't get the concept of "oil for the lamps of China" out of your mind (chuckle).

Yergin: Not that so much. I don't think there's a lot of sentimentalism or emotionalism. It's a pretty pragmatic, modern-day look at the thing. Always, in the back of anyone's mind is the remote possibility that maybe they would open up to a fully free enterprise system, although I think that's a long, long way off.

Marcello: What role does the establishment of the special economic zone there play?

Yergin: That's a very important development, both for us and for China. We have been very fortunate, again through our contacts established early, and we've established an excellent relationship with the authorities in the Shenzhen Special Economic Zone just outside of Hong Kong. We entered into an agreement a few years ago under which we'll be able to build about eight service stations in Shenzhen. We're just completing, and we'll be opening, an oil depot in Shenzhen which will receive product from Hong Kong by barge and supply the area of Shenzhen and its surroundings. Although this is contrary to what I said earlier, that we don't expect to get into the service station and downstream selling business, Shenzhen is an exception. It's always enticing to think that maybe that's the opening wedge from which we can spread out and take over more, but we're not counting on that. We're happy with what we're doing in Shenzhen now. We currently have two service stations in operation and a third one under construction, and they're very well-located, and we're quite pleased with that. But it's relatively "small potatoes" in terms of the total Caltex enterprise.

Marcello: How do you find the Chinese to work with, either as business partners or as negotiators or whatever?

Yergin: Having lived in China a fairly short time in 1948, 1949, 1950, and part of 1951, I have a tremendous liking and admiration for the Chinese people generally, and for individuals as well that I know. They're a very wonderful people to know, and they're very resourceful and energetic. They're generally good-natured, just good, friendly people to know; and they're good people to do business with. They're quick and sharp. I don't mean sharp in any derogatory sense. They're quick to grasp things. The Chinese who worked for us, both in Hong Kong and in other parts of

Southeast Asia, make excellent staff people because they are able to grasp concepts and are very energetic, so we find them very good to deal with.

We've had a lot of contact...again as part of casting the bread on the water, we had a program a few years back, which was started by Jim Voss, where we brought half a dozen Chinese from the People's Republic to a special course designed for them in Austin at the University of Texas. This was a very successful program that went on for about four groups. We terminated it, temporarily at least, because we thought we had done as much as we could at the time being, and we are looking at other ways to do similar things in the future. We frequently have visitations from various agencies of the People's Republic here in Dallas. There was one here just the other day, in fact. We have many contacts and relationships and are hopefully developing good, warm feelings towards Caltex which may someday prove fruitful.

Marcello: I haven't interviewed Mr. Voss relative to this subject yet, but that's certainly going to be one of the topics high on my list on the basis of what you've said.

Yergin: Right. He was responsible for initiating that program, and it was very successful. The people that came for that special course at the University of Texas were not young students. These were generally men in their late thirties or forties. Over half of them were academics. They were professors or lecturers at the technical schools, petroleum institutes, and so forth. Some of the rest were in the energy or petroleum ministry or parts of that. So we've got a sprinkling of Caltex alumni around China, which again we hope is useful for us.

Marcello: Was Caltex one of the first of the oil companies to get a toehold here in China?

Yergin: I'm not sure. We, of course, are talking only from the side of a downstream oil company. On the upstream side, the exploration side, there were a whole host of American and other international oil companies who early on jumped in in order to achieve what has now been done by a number of them, which is to get concessions to explore for oil both on mainland China and offshore China. So there were a lot of other oil companies, but I think we were probably among the first, if not the first, as far as our end of the business, of reestablishing contact and good relationships.

Marcello: Let's shift to another country on another continent, and I'm sure this is a topic you have to address all the time, certainly recently. Let's talk a little bit about South Africa. Give me some background relative to Caltex's involvement in South Africa and how it came about.

Yergin: As you surmised, this is a subject which is very much in the forefront of my thoughts and activities and has been for a long time. To begin with, Caltex--or its predecessor company--has been in South Africa since 1911. I think it's the oldest Caltex-related entity in the system, so we really feel a part of South Africa. Even though I'm an American over here when I'm talking about and thinking about South Africa, I think I think as a part of South Africa because that's what we are. It's a South African company owned by Caltex. We're citizens of South Africa as much as Shell Oil is a citizen of the United States, even though they're owned overseas...or Lever Brothers or any others.

I take great umbrage at people who talk very lightly about disinvesting, which means giving up your birthright, in effect. As far as Caltex (South Africa) is concerned, why should we get out of this country any more than Shell should get out of the country if they don't like the current administration here? It's very frustrating and annoying to see the tremendous growth in the move to divest from South Africa from that perspective.

From another perspective, it's even more aggravating because the people who are talking about divesting from South Africa, in my opinion, are saying this in frustration because they can't find any other way to try and make their wishes realized. They think that if they threaten the South Africans with cutting them off from United States ownership, that will force them to take the actions to dismantle apartheid and go to one man-one vote.

We certainly have been working towards those same objectives, but we are in total disagreement with the people who advocate disinvestment as a means to achieve that end. We think it's absolutely counterproductive and would only serve to prolong the time before apartheid is abolished. The role that the American companies have played in South Africa is an enormously beneficial one. In the first place, the expansion of the economic opportunities in South Africa by businesses, and by foreign businesses in particular, is the surest way to get rid of apartheid because of the economic drives that will bring that about.

Further, we treat our employees in South Africa just as we do in any other country, and we do not discriminate against them on a basis of color, creed, or anything else. We also go to great pains to educate them, train them, develop them for improved jobs, and have, in fact, quietly violated many of the apartheid restrictions over the years until some of them have disappeared.

So we think we've been a tremendously positive force, and that it will lead toward the full abolition of apartheid in due course. But it is a very worrisome and troublesome situation, and I'm afraid one that is not going to be settled easily or in a short time. There are no miracles.

Marcello: What kinds of jobs do blacks have within the Caltex organization in South Africa?

Yergin: They have the jobs that they can develop themselves for, or that we can develop them for. Again, at the risk of getting myself in hot water, it's a little like the problem in this country of women in the workplace. We're always reading stories that in spite of the women's lib movement, the women are getting paid less than the men and so forth, which is really a function of the fact that there are fewer women in management and top positions than there are men. As far as I am aware, at least, there are no constraints in our company against having women in senior positions. But it doesn't happen overnight simply because somebody says that's the way it is. There's got to be a cultural change in the attitudes of women themselves and others, and this only takes place over time. It's not a magic thing that you suddenly enact through some kind of bill or something that immediately makes people different. They are the same people they were the day before. If the women demonstrate their capabilities to manage, there's certainly no reason why they can't become managers.

The same thing is true with the blacks in South Africa. Once they demonstrate the capability to handle the senior jobs, they will get them. But it will not happen overnight; it will take time. They come out of a different background, so it will maybe take generations, or a generation, at least.

Marcello: It seems as though the company is, in a sense, between a rock and a hard place in this aspect. On the one hand, given the educational system that has been provided for blacks in South Africa, the skills and talents that the company requires perhaps aren't there. On the other hand, you are again a guest in that country, and what can you do to change things?

Yergin: Again, it's a matter of time. We hire and develop blacks so that...now, in contrast to some years ago, for instance--it sounds small, and people put it down and say it's nothing --blacks drive the trucks now. Ten years ago or so, they didn't drive trucks; they didn't do that kind of thing. That's a very minor skill, but it's a step up. They do other jobs--supervisors in plants and so forth--which they didn't do before. These people then have children, and their children see their parents working in this sort of a thing, so now they'll probably come along and be able to move higher than that. They're encouraged to get an education because there are opportunities that they can get to. So these things happen. But to think that you go from a situation of, say, ten or fifteen years ago suddenly to the situation we have now in this country, which many people still, with good reason, complain about (blacks in positions), takes time. It's really harmful to raise people's aspirations to think that they're suddenly all going to be the chairman of the board of Caltex.

Marcello: What can you tell me about the Sullivan Principles?

Yergin: We were one of the twelve original signatories of the Sullivan Principles. Jim Voss, in fact, was the signatory for Caltex who met with the Reverend Leon Sullivan. I've forgotten the year now. It was back in the 1970s--ten years ago, I guess. We have had no problem whatsoever in conforming to the Sullivan Principles. As I said, this is the way that we do business, anyhow. You mentioned a little while ago education, and education is a very big part of the Sullivan Principles, and it's a big part of our activity in South Africa. I have stressed it repeatedly, in forums here and there that in the long run the solution is education, because you cannot take people who are uneducated and move them into positions of prominence or skills and so forth.

So education is of paramount importance to the blacks. I've expressed myself publicly that, while people talk about disinvestment or economic strangulation or something, the United States could help most by dedication substantial amounts of help to the educational system in South Africa. After all, the problem of educating more than twenty million blacks is a system which unfortunately up until now is fundamentally paid for by taxes and revenues from the white population. Unlike in this country, where we still have some educational problems from a funding standpoint, at least it's the majority of the people providing public education facilities for the people of the country. In South Africa, it's a minority of the people who have to provide the wherewithal to educate all of the people. It's an enormous practical burden for them. The United States could help by doing more towards actually contributing both money and talents and other resources to the educational problems of the blacks in South Africa.

Marcello: A moment ago you mentioned the employment opportunities that Caltex had provided for blacks in South Africa. Have there been any cases where official or unofficial sources in South Africa have said, "Hey, you're moving them along too fast. We think you're making a mistake by doing this."

Yergin: No, I don't think so. We haven't intentionally or obviously flaunted anything, but we've simply quietly gone about our business. To my knowledge--and I don't know everything that goes on; obviously, I'm not there on a day to day basis--I don't think that we've been really impeded or had our reins caught up short by any governments in this respect. Again, the problem of blacks moving up the economic structure...the objection you get, if any, would be from those in the white structure who are threatened by this upward movement of the blacks. Certainly, when we started putting black drivers on trucks, that was not a popular thing with the white drivers, who were at that time in those positions. So that's the kind of opposition you would get, but we've not had--as far as I know--any government opposition expressed that would slow up our progress.

Marcello: One of the concepts that I've run across time and again in doing research for these interviews is that for the most part Caltex tries to maintain a low profile in these countries where it operates. Is that a fair observation? An accurate observation?

Yergin: No, I don't think so. We keep a low profile here in the United States because obviously we're not doing business here, and there's nothing to be gained by blowing our horn and being prominent. In the countries where we operate, this is very definitely not so. We advertise on the television and in newspapers; we sponsor all kinds of very widely publicized public events and are in the news frequently. So we're active in those countries to make our name well-known, moreso, I would say, even than the major oil companies in this country because, after all, in the United States the largest oil company has less than 10 percent of the gasoline market, for example. Overall, in the Caltex area we have about 17 percent of the market, and in some countries --the Philippines--we have 40 percent of the market. Caltex is the number one oil company in the Philippines and in some other places. So, no, we do not keep a low profile or try to keep our heads under the bushel basket or anything, by any means.

Marcello: When I was talking about low profile, I was referring to, for want of a better word, non-interference in the affairs of other countries. I'm still not sure that I'm saying what I want to say.

Yergin: Well, we're non-political. As guests in the country, even though we've been there a long time, I feel pretty strongly, and I think it's been pretty standard in Caltex, that we're not there to support this government or oppose that government or whatever. We're there to be there and to do our business and do it the best way we can and hope to be there for many years, no matter which government or administration happens to be in power. We have survived some very traumatic changes in government in many countries, not the least of which was Indonesia. Some of these were very, very difficult situations to live through, but by sort of keeping our noses clean and playing it straight down the middle, we've never been thrown out or lost favor in any country on the grounds that we were a tool of the previous government. We intend to keep it that way if we possibly can.

Marcello: You can't win by taking sides, can you?

Yergin: Absolutely not. In the long run you're going to lose, so we don't. That does not mean that we don't go to very great pains to maintain good relationships with any government that happens to be in. It's an extremely important part of our effort in every country, and I think it's different from the United States. I would say that in most countries where we operate, Caltex has a closer and better relationship with government authorities than even the big oil companies do here in the United States, because the United States is so big that even an Exxon or a Texaco or a Chevron doesn't have a whole lot of clout in talking to the President of the United States or other things. In the Caltex countries, its not uncommon for our very top executives--chairmen of our parent companies or myself--to pay a visit on the chief executive of the country--the president or whatever he happens to be--when we go there on Caltex business. I called on--last year--President Botha in South Africa and President Marcos in the Philippines, and I've called on the presidents of Kenya and Korea and so forth, which is evidence of the fact that we do keep very close relationships. We're highly respected by all these people; they always tell me how warmly they feel toward Caltex and the good job we're doing in the country and so on. From that perspective, we certainly want to, and do, maintain good connections with the governments there.

Marcello: You do a tremendous amount of business in South Africa, quite obviously. Have there been any repercussions in other

African countries, simply because of the fact that Caltex has such a large presence in South Africa?

Yergin: No, I would say not at all. They are all well aware that we are also in South Africa, but I have not come across any instances where they've used that as any reason to give us harsh treatment or be critical of us or anything else. As a matter of fact, although the black governments in the rest of Africa are violently opposed to apartheid and all it stands for, pragmatically they also have dealings with the country of South Africa because economically they need to. They're tied to it. And I don't mean only the immediate surrounding states, but some of the others as well. It's kind of a pragmatic objectionism. They don't object to the country per se; they object to their policies. I think it would be well if people in this country would realize that, also, that we're not against the South Africans per se, but we're against their policies. Too often it gets turned around into being against the country. This is wrong because they're good people in South Africa--blacks and whites and coloreds and Asians. They're all good people.

Marcello: You mentioned Indonesia previously in our conversation, and while we're on the subject of the internal politics of some of these countries or policies of these countries, I think we have to talk about Indonesia. That must have been a very traumatic period for Caltex when Indonesia was undergoing that upheaval from Sukarno to Suharto.

Yergin: Indeed, it was. I was only peripherally involved personally in it, but I've heard some of the stories. The changeover from Sukarno to Suharto took place in an era when there was also great concern about the Communist threat in Indonesia. In fact, our top man in Indonesia--an Indonesian, Julius Tahija--his name was on the list of those who were to be eliminated by the Communists if they were successful in taking over. So that gets pretty close to home, when you see that sort of thing.

The hairiest time came when the rebel forces physically overran the producing area in Sumatra and occupied the area. They delivered the instruction to the Caltex Pacific (Indonesia) people that taxes and royalties were to be paid to them instead of to the former government. Fortunately, it wasn't time to make the payment yet, and by the time the next payment came due, they were no longer in control of the area, so everyone breathed a sigh of relief. It would have been a very, very tough situation.

Recently Gulf faced the same thing in Angola when there was a revolt there. They resolved it by paying the amounts into an escrow account which was then held until the situation was resolved.

Marcello: Revolts, revolutions, and social upheavals are simply something that you have to contend with when you're in the kind of business that you're in.

Yergin: Yes. We're in a lot of countries that are unsettled from time to time.

Marcello: Whose decision was it to gut it out in Indonesia?

Yergin: I don't think there was ever any difficulty in reaching a decision; it was already a pattern of behavior. You simply keep your head down or get out of the line of fire and wait until things settle down. I don't think there was ever any thought given really to pulling out. You couldn't take the assets with you. That's another thing about the easy talk about divestment and so forth. The fact is, your assets are there, and they're fixed to the land. You can't just pull them up and walk out with them and leave the country to flounder without you. All you're doing is abandoning your assets if you pull out.

In a case like Indonesia or any of these areas, we prudently move the expatriates out. We don't typically move the local people because that's their home. Along with the others there, they're usually not in any great jeopardy. But we do move expatriates and their families out when things get too hot, and then we send them back in again as soon as it's considered reasonable. Other than that, we don't contemplate running totally from a country.

Marcello: Let's move away from politics and talk about personnel. From time to time in the sessions that we've had thus far, we've talked about expatriates and the employment of foreign nationals. From everything that I've read, early on Caltex initiated a policy of bringing foreign nationals into the company's operations in the various countries. What was the rationale for doing this? I think I know the answer, but I want to hear your views on it.

Yergin: I'm not sure that I'm addressing it exactly. There's two ways this goes. One is that we brought nationals of the countries into the head office in the United States for periods of training and development. The other is that we brought them along into the senior management of the companies. Those things are related to each other. You can't really bring them into positions of senior management unless they know more than just the local company. They have to see how it fits into the broader objectives of Caltex as a whole. So the program of bringing nationals over to the head office and to other countries as well to get an appreciation of the broader programs of Caltex is a necessary step in developing people so that they can then take a place in senior management in their own country.

This has been a long-standing thing. It ranges from a program where we at least once a year hold what we call the Caltex Development Conference. We bring in thirty or forty people from all over the world for about three weeks and sometimes beyond three weeks for a course of broad indoctrination here in Caltex. Some who are brought in stay for a period of two years to actually work in an assignment in Caltex before going back to their home country.

In recent years--but it's been going on for quite some time--we've also intentionally and consciously gone in a great deal for what we call Third Country expatriates. So the expatriates are not just Americans working in Malaysia or South Africa. We have Australians working in Singapore or other places and South Africans working in Hong Kong and so forth. We're having a lot of cross-fertilization in that fashion, partly to develop the people but also simply because we have a need for particular talents in particular locations. We look around. We don't just look at the American expatriate people who are available. We look at people with the talents and experience wherever they are, whether it's Australia, South Africa, the Philippines, India, and so forth. So we're doing a great deal of international movement of people, and we're doing it for pragmatic business reasons. I'm very happy that it also, I think, is the right way to go in terms of the whole world's perceptions of each other. We learn to know each other better.

Marcello: You mentioned the pragmatic business reasons. What are they?

Yergin: Because we've got the skills that we want to make use of. If we need someone who's an experienced terminal operator, for instance, or an operations manager in East Africa, we may find we don't have an American here or somewhere else, but maybe there's a guy in Australia who has the experience and has indicated a receptivity to being assigned overseas. So we ask him, "Would you like to go to Kenya?" We've had quite a lot of this kind of movement of people.

Marcello: Is it not true that in the early days of the company, it was always cheaper to have nationals than expatriates?

Yergin: Expatriates, especially American expatriates, are extremely expensive, no doubt about it. We have gone to total nationalization of the work force, including top management, in some countries. Well, it's not total, but the top chief executive is a national. We do have that in South Africa; we had it up until recently in Australia; we have it in the Philippines, and so forth.

Fundamentally, we are still a United States-owned company with ultimate shareholders and parent companies in the United States, so we can't ever really escape the fact that we've got to have enough United States orientation in the business so that we don't lose sight of the final objective of bringing profits home to the United States shareholders. We don't find it practical to try and totally get rid of United States expatriates, so even though they cost more than comparable local executives, we need to have some seeding of United States orientation.

Marcello: Let's talk a little bit more about personnel. In 1970, Neal Lilley retired as chairman of the board, and Jim Voss assumed that position. What was the significance of that move?

Yergin: Well, Neal Lilley had reached retirement age, of course. Jim Voss, when he took over as chairman, was a "first" because he was the very first home-grown Caltex employee to become chief executive. Prior to that time, all the chief executives had been either Chevron or Texaco people who had been transferred to Caltex. So Jim was the first wholly Caltex chief executive. I guess I'm the second, because Bill Tucker did start with Chevron briefly at the beginning of his career, although we never thought of that. He was really a Caltex man, having spent almost his entire working life in Caltex. That was a change, when Caltex now had a Caltex chief executive. That was well-received by everyone at Caltex, I think.

Marcello: I was going to ask you what significance that had relative to the operations of Caltex?

Yergin: I don't think that, in and of itself, had any significance. It's just simply the personality of the people involved. They were different. Neal Lilley was a very remarkable man in many ways. I worked closely with him, and I liked him a great deal in the relatively few years that I worked with him. But he was a different type of personality than Jim Voss, and he had not worked overseas in Caltex operations, whereas Jim had. He had been in Japan, and he had been the chief executive in Australia, so he had the feel for the actual on-site situations that people would run into. He was a different person, too. So it brought a different kind of a corporate environment. I think chairmen do have that impact, more or less (chuckle). Their own personalities and beliefs and so forth do place some bearing, I hope, on the company--make their mark.

Marcello: What did Jim Voss bring to the company?

Yergin: As I say, he brought a more informal style, for one thing. Neal Lilley was a fairly formal...aloof isn't the right word, but you were always aware that he was the chief executive and was a little different. Jim was more one of the boys and really played it that way, too. He was one of us. He really established, I would say, the more informal management style that we have in Caltex to this day. I think we pride ourselves on it. We're not formal; we don't stand on ceremony. The doors are always open, and people walk in. Jim had a lot to do with that. It's his style, and it came easy to him.

Marcello: Like he came in yesterday in the middle of our interview (chuckle).

Yergin: Yes. Since many of the senior executives here were expatriates at one time or another, there was always a feeling of kinship--that he knew all about the problems that face people in dealing with things. That brought that sort of a feeling among people.

Marcello: I've heard that said by other people with whom I've spoken. He brought a certain amount of confidence and reassurance to the organization.

Yergin: Yes. Their problems would be heard, and sympathetically heard and so on.

Marcello: Were there any other interoffice organizations during that period of time that you think we need to discuss?

Yergin: It would probably be worthwhile mentioning that even before Neal Lilley retired, there was a major change, sort of, in the upper echelons in the late 1960s. Several of our long-time top executives reached retirement age in the same year, in fact, in 1966. We lost Murdo MacIver, the financial vice-president who was my predecessor and boss, Al Van Dusen, who was the general counsel, and Howard Nichols, who was the senior vice-president of technical and refining and everything of that kind. So there was quite a shift in the management group at the end of 1966 and the beginning of 1967.

Neal Lilley was chairman then, Jim was president, and we established in the beginning of 1967 sort of a new team. Hal Lewis, Frank Zingaro, Bill Tucker, and I, together with Voss and Lilley, became the Executive Committee. Neal Lilley retired in 1970, but the other five of us really ran the company from there on until about 1980 or 1981. So we had ten years or so of a pretty stable top echelon management of Caltex through that particular group. I well remember back in the late 1960s, before Neal retired, at one point he was emphasizing to this group that we really had to get cracking on developing people and bringing them along because he said, "After all, you fellows are getting pretty long in the tooth." Well, I took exception to that; I was only forty-six years old at the time. I didn't think I was long in the tooth (chuckle). He was right in the sense that time goes by more rapidly than you think, and you've got to plan ahead for development of people. That's what he meant by it, of course, that you've got to be looking ahead and bringing the people along.

Marcello: You mentioned the Executive Committee and the members of that Executive Committee, and I heard you mention Frank Zingaro and Hal Lewis, one of whom I've interviewed and the other one whom I've simply spoken with. There certainly seems to be a difference in personalities between the two.

Yergin: I think we were all different. I'm different from either one of them, obviously. Jim Voss was different as well, and so was Bill Tucker. I think we made an effective team because of that. We were different kinds of people, and I think you need to have different kinds of people. You need to have people who are reasonably compatible, but you need to have people with different personalities and tastes and backgrounds and experiences and everything, because there's no use sitting there with five guys who all came out of the same school and went through the same experiences and exposure. You're just repeating each other then. I think it was a very effective team, and it brought a lot of varied experience and talents to the management of Caltex during that period.

Marcello: During that period--these are names with which I'm now familiar--what were some of the major policies formulated by the members of that Executive Committee? What stands out in your mind?

Yergin: Let me think now. We're talking about the 1970s. Of course, early in the 1970s, we ran into the problem of the OPEC formation and the embargo and so forth. One of the things that Jim Voss established--actually first in 1967--was the concept of having a periodic getting-together of all of the chief field executives. That had not been done before, and I think it has been a very effective tool for bringing all of our people together. It's usually at about eighteen months to two-year intervals. We're able to exchange ideas and simply get to know each other better and appreciate that we're all part of the same organization. Jim started that. As I say I think there was a meeting earlier than that--sort of a rump session in Hong Kong--but the first full-blown one was in 1967. We met at the Water Gap Country Club, Delaware Water Gap, in Pennsylvania. It happened that the morning the meeting started, I woke up with the radio coming on, and they announced this war--the Six-Day War--in Egypt had broken out. Of course, that's right in the middle of our area of operations. But we went ahead with the meeting, anyhow. Only Neal Lilley left to go back to the office to field the questions and so forth.

So that was the start of our periodic chief field executive meetings, and that was started by Jim Voss, and I think it's proven to be very useful and very effective. We have a meeting coming up three weeks from now in Hawaii of all the chief field executives.

Marcello: I heard one of the people say, who's name I won't mention, that under...

Yergin: I probably know who it was.

Marcello: ...(laughter) under Jim Voss, you guys held those meetings in pretty nice and exotic places, but when Tucker came in, things got a little bit more austere.

Yergin: That's not fair to Tucker (chuckle).

Marcello: I'm just repeating what I heard.

Yergin: We did hold them in a lot of different places, not just because they were nice or exotic places so much as because, since most of the people had to travel, anyhow, to come to the meetings, there was no use holding it in an unattractive place. But we did hold them in a number of places that were relevant to the business. A meeting, as you probably heard, was held in Bahrain and another one in Indonesia and so forth. What happened with Bill Tucker is that shortly after he became chairman, we moved to Dallas. So we thought--and I fully agreed with him; we both agreed on this--that we wanted to bring all the chief field executives in here so that they could see Dallas and get to know it and to show them our new building and facilities and make use of our facilities as well. So that meeting was held here because of that. I guess I'm more guilty because the next one was the one I held, and I held it here again in Dallas, a little bit for austerity reasons. Now we're going to Hawaii for this next meeting.

Marcello: What is the importance of having those chief field executives come together for these meetings?

Yergin: From the standpoint of any individual field executive, no matter where he is--whether he's in Australia or Uganda or Cairo or wherever--we think they're very competent individuals and so on, but the command position is kind of a lonely position. You don't really have somebody you can talk to who's your peer, so that just getting these peers together allows them to talk much more freely about frustrations or problems that they may have and to feel reinforced by the knowledge that there are others in the same boat who have similar problems. We do have a lot of sessions, and these are pretty intensive meetings. We take time out to play golf, but we also have very intensive and specifically oriented meetings to talk about new developments or experiences that have been had in one place that may be useful in another and so on. So they are extremely good working meetings for the field executives. They participate in them and present things as well as people from the head office, so it's not just a lecture session. It's a participatory meeting.

Marcello: Let's talk a little bit about the relationship that evolved or developed between Caltex in New York, and then later on in Dallas, and its subsidiaries throughout the world since OPEC. What kind of a relationship has developed between Caltex and these subsidiaries since that time?

Yergin: I'm not quite sure I know what you mean. It's not really different than it was before.

Marcello: Let me ask you a more specific question. Over the years, have the subsidiaries become autonomous and given more freedom and responsibility than before OPEC?

Yergin: I don't really think so, no. My perception is, at least, that we've always worked very closely with our field companies and field executives, and we still do. The telephone is a very handy tool, so is the Telex machine, and now these new Wang communicators, so we are able to communicate regularly. Our regional people here in Dallas and before that in New York are in almost daily contact with the chief field executives or others in the overseas companies. There has always been, and continues to be, a very close rapport between head office and the field subsidiaries.

The role of OPEC really hasn't altered that significantly. What it's mainly done has been to change and complicate the pattern of supply. I mentioned earlier that years ago our planning process, as far as supply was concerned, was fairly simple--how much Indonesian crude was available to us, how much Iranian crude was available to us, and the balance was Arabian. No matter how much we needed, the attitude was, "Just tell us how much you need," and that sort of thing. After OPEC and as more alternate sources of oil became available with different pricing bases and so on, the need to coordinate this crude oil selection and logistics became much greater, so there's a higher degree of contact--not necessarily with the chief field executive, but with whoever's responsible for the supply and distribution for the company. So there's even more daily contact than there was before, but it's not because of OPEC *per se*. It's only because of the evolution of the oil business.

That is another thing, incidentally, that Jim Voss initiated, and I can't remember what year now. Pat Ward would remember the year because he started it. Jim Voss felt that with the changing patterns, we needed to have a trading office--people who were experienced and expert in oil trading--located out in the field somewhere, and

Singapore seemed a logical place. So we discussed it and agreed that we should set up a small office in Singapore, initially just to simply get wired up with what was going on and find out what opportunities there were to be closer to the trading market. Again, that proved to be a very foresighted decision because at the time we were really not doing much trading ourselves. We were still relying mostly on getting our oil from our shareholder supply companies. Now there are times when we buy 60 or 70 percent of our needs from the market, and that's done through the trading operation, whether it's in Singapore or here in Dallas. That has become a very large part and a crucial part of our business.

Marcello: You've gone into a subject that I was about to ask. I think this is a part of the record, but I'd still like to hear your views on it. Why was it that the decision was made to purchase crude from sources other than those owned by the shareholders.

Yergin: It was really forced on us because of the aftermath of the 1973-1974 OPEC actions. The perception at that time that there was an overall worldwide shortage of oil changed our logistics so that the thing I just mentioned--"How much do you need? We'll give it to you from Saudi Arabia" —no longer existed. We were told by our suppliers that we could no longer rely on simply opening the tap and getting whatever we wanted. It was really to counter that or to cope with that that we set up a trading office so that we could then go out and find other sources of oil to fill out our needs once we'd exhausted the availabilities from our traditional suppliers. That was the motivation for us.

Marcello: So you can now buy in the spot market.

Yergin: We do, very much so. That's the origin of all this huge volume that we now purchase through the trading office. Most of it is on a spot basis.

Marcello: Obviously, the parents had no objection to this because it was going to mean greater profits for them.

Yergin: Right. They were in accord with it, and they had their own trading operations as well--very large operations. We work with them; we refer things to each other from time to time.

Marcello: I hate this word, but I don't know a better one to use. How did computerization change the nature of Caltex's business--it's way of doing business?

Yergin: Computerization in our business has been extraordinarily important. Of course, in the initial stages, like everyone else, it was used to replace bookkeepers. It was an accounting convenience, and it cut down on the number of clerks you had to have in the Accounting Department. But then it rapidly expanded beyond that as the capabilities of the computers expanded.

The biggest breakthrough, I would say, came when the computers had reached a stage where you could do linear programming on them and could actually simulate the operation of a refinery on the computer. I could best describe this by referring to something that occurred some years ago when Eric Vero, who is our general manager of computer services here, was giving the Executive Committee a briefing on the status of the computer programs in the company. Someone asked him, "If you didn't have the computers, how many people would you need to do the things now?" He said, "The best way that I can illustrate that is that I started out with Caltex as a chemical engineer, and I started out in the Process Engineering Department." We still have a Process Engineering Department, and it's very important. He said, "I had a desk calculator there, and I would spend all my time, day after day, running stock balances." This is simulating the refinery process to find out how much of each kind of product you could make from each kind of crude oil. He said, "I sat there grinding these things out on that desk, and there were a bunch of others like me doing the same thing. If we didn't have the computers now to run these LPs and do the stock balancing, how many people like me would you need? I would tell you there's no answer to it because you could not go out and get people to do that today. All chemical engineers know that there are computers that can do it, so they wouldn't do it. The computers are absolutely an essential part of our operation."

Even now, today, we're constantly improving on the capabilities of the computers to do things with greater precision than before. With Eric's desktop computer, he was doing one calculation by sort of trial and error, and then he'd do another to find out which gave the best answer, taking quite a bit of time to do it. With the computer, you can run for the optimum. You can run an almost infinite number of cases to find out which one is absolutely the optimum. Those things are even still more sophisticated and improved today, so we're getting even closer tuning all the time. Now it's not just one crude; now we have a whole host of crudes with different kinds of characteristics and different constraints on availability, the price, and everything else. So the computers are just a fantastic and essential tool for running our business in a profitable manner. The key to it is, really, that you've got to be at least as good as the competition, and we know the competition is doing the same thing. When we were doing it on a sort of trial and error basis, so was the competition. Today, they're using highly sophisticated computer techniques, and so are we. If we weren't, we'd be out of business.

Marcello: Like you were mentioning just a moment ago, given the manner in which you are now able to purchase oil, the computer would seem to be an invaluable tool.

Yergin: Absolutely. We used to have a list of crude oils that we ran in our system, and it was a very short one. You could count them, literally, on the fingers of one hand. Now we have lists that go on for several pages of different crudes from different countries and different qualities of crude from different fields within the same countries and so forth. So there's a long list of crude oils, and we have to have the characteristics of each and the characteristics also in terms of our own refinery capabilities because individual refineries are different in their ability to handle different crudes. So what we call the optimization of crude oils is something that the computers handle for us--to calculate for any given refinery what crude or even, more importantly, what synergistic combination of crude oils will produce the most economical slate of products.

Marcello: One of the things that we haven't talked about in the interview thus far, except briefly, has been the development of the Caltex tanker fleet. Near the beginning of this interview, when we were talking about that period very shortly following World War II, we talked about the purchase of the T-2 tankers. Let's go back and pick up that thread and talk a little bit about the development of the Caltex tanker fleet and how it came about.

Yergin: Those first tankers were bought for the Panamanian tanker company, a wholly-owned subsidiary called Overseas Tankship

Corporation or OTC. OTC continued to be the general purpose tanker company to meet all of Caltex's needs for many years. Again, as part of the plan to meet the shortage of exchange in the sterling area, in about 1950, as part of this concerted effort, a British flag tanker company--Overseas Tankship (U.K.), Limited--was formed for the purpose of operating ships on a sterling cost basis. They also acquired T-2s; they bought some of them from OTC, in fact (they were transferred). Then they started building larger tankers as they were needed and so on. So we had those two. Then in Holland they required Dutch flag tankers to transport oil to Holland, so the Nederlandsche Pacific Tankvaart Maatschappi--NPTM--was formed, and they also acquired tankers. For most of that period, then, there were three main tanker fleets--the OTC, OTUK, and NPTM. The NPTM was the smaller of the three, and OTUK supplied not only the United Kingdom but all of the sterling area, which was pretty wide-flung all over our operation. OTC operated all over the area in the non-sterling part, and NPTM operated primarily through Holland and Europe. So those three tanker companies were run by Caltex and coordinated out of the head office by the Marine Group. Andy Nielson, for many of those years, was the head of that--president of Caltex Services--during the period when that was the formal organization. Lee Smith took over after he was there.

That was a very important part of the total Caltex operation until 1967. In 1967, as part of the Caltex reorganization, when we spun off Europe, we also spun off the tanker companies. The tanker companies were split between Chevron and Texaco. Since then, we have acquired our tanker requirements from Chevron and Texaco. One would supply one of our areas, and the other would supply another area. But just as in Holland, which had the requirements of the local government to have their own flag tankers, this concept extended. Japan had been operating, of course, since 1951 with the Japanese flag tankers. That fleet grew even more rapidly simply because the volume of oil being transported to Japan grew very, very rapidly over the years.

Marcello: Was this the Tokyo Tanker Company?

Yergin: The Tokyo Tanker Company, yes, which was owned indirectly 50 percent by Caltex. It was owned 64 percent by NPRC, 32 percent by Koa, and 4 percent by Nippon Oil Company. So we had an indirect 48 percent interest. Initially, it was 50 percent, but then it was reduced to 48 percent when NOC came in for a small piece of it. We were involved very much with them, as we were with the other companies, in assisting and financing tanker construction. The Japanese fleet rapidly grew and kept building bigger and bigger tankers. They were headed toward an objective of building a 1,000,000-ton tanker some day, but they never got to it.

They got up to 482,000, and then the world changed, and people began cutting back on the sizes.

Marcello: I guess there are a lot of those tankers around now that people could have fairly cheaply, aren't there?

Yergin: A lot of them have already been scrapped. Some of the ones that were the largest tankers in the world at the time have already been scrapped after twelve or fifteen years. It's a rapidly changing environment; a lot of things happen to change it.

One of the things that's made some of the tankers that were built not too many years back candidates for breaking up--in addition to simply the slowdown in the market--is that they were built at a time when oil was cheap. So the operating cost of a tanker was not too large, and the efficiency of the propulsion machinery, therefore, was not a major factor in the cost equation. Today, if you take two tankers that look alike and might have been built at the same time and seem to have not much to choose between them, but if they have different propulsion machinery in them, one of them becomes uneconomic. Don't ask me which one; ask the engineers. One is uneconomic because it simply burns too much fuel to propel it. The same thing happens, as you know, in the aviation business. A lot of these jets are obsolete because they burn too much jet fuel. They were built when it wasn't as expensive as it is now. So the tanker fleets are constantly changing in their configurations.

The big feature of the rapid growth in the size of the tankers in the Japanese fleet was the construction of the storage facilities--the mammoth storage facilities--at Kiire or Kagoshima because that facility could handle tankers up to half a million tons. The facilities at Ras Tanura and in Kuwait could also handle that size-tanker, so there was a shuttle of the huge tankers between those ports.

Today, you need more flexibility with tankers, and there aren't that many places that can handle that size. They're dinosaurs now--rapidly becoming dinosaurs--and are being replaced by tankers in the 200,000-ton class or less, which have greater flexibility of use. In fact, during the 1950s, there was quite a program of jumbo-izing T-2s, where they would take a T-2, which was essentially a 16,000-ton tanker, cut it in half in the middle of it, stretch the two ends apart from each other and build a new mid-section to extend the length of it and increase the capacity by about six or seven thousand tons. Now they are de-jumbo-izing 250,000-ton tankers. They're taking them and cutting them and cutting out a mid-section and shortening them so they have greater flexibility of use in more ports and hauls. So time passes on.

I want to add on the evolution of the tanker fleets that while initially we only had the NPTM, OTUK, OTC, and

Tokyo Tanker, as we got into Korea, the Koreans required Korean flag tankers, so we have Honam Tanker Company with a good-sized fleet. The Australians required Australian flag tankers, so we have a company there with a few tankers. These things spread, and we got back into the tanker business, even though we spun off the tanker companies.

Marcello: It's amazing how much the nationalistic tendencies of these countries influence the decisions of a company such as Caltex.

Yergin: Some of it is nationalistic, but some of it is a foreign exchange problem, too, for the same reason that they build refineries. Every refinery that I know of at least, that we've built, was really from a national point of view justified on the savings in foreign exchange that would accrue from being able to buy crude oil instead of buying finished products.

Marcello: Speaking of those refineries being built, sometimes that's also a defensive strategy, is it not, if you want to keep your market share?

Yergin: Yes, as far as we are concerned in competition with the others. If they have refineries, we have to build one, too, or else we're not competitive. In some countries where a separate, individual refinery was just not practical because the consumption wasn't large enough, we have gone into a number of joint refineries, where three or four companies would get together and build one refinery.

Marcello: I'm going to change the subject completely at this stage. Give me the information that you know about the decision to move Caltex from New York to Dallas. Let me back up and ask a very elementary question first of all. Why was Caltex in New York to begin with, since all of its operations were overseas?

Yergin: As so many things in life are, it just happened that way. With the inception of Caltex in 1936, as I said earlier, Chevron threw in the Bahrain operations, and Texaco threw in the field operating companies. Texaco was running those field operating companies out of the Chrysler Building in New York, and initially the people who came over to Caltex for that side of the business were primarily Texaco people so that there was no loss of stroke. In fact, for many years--the first twenty or twenty-five years, almost--of Caltex, we were located right in the Chrysler Building along with Texaco. We were on different floors, but right in the Chrysler Building. They continued to do what they were doing before, but in a different office--now Caltex rather than Texaco. I don't know the reason why they moved in about 1949 or 1950 from the Chrysler Building over to a couple of buildings on Fifth Avenue, but they at least got of the Chrysler Building, so they weren't directly in Texaco's sight. That may have been pushed by Standard of California.

I wouldn't be surprised. So we were then in other quarters and then moved into the building on 46th-380 Madison Avenue in 1953.

Marcello: It seems to me that perhaps Standard of California may have been a little uncomfortable with Caltex being that close to Texaco.

Yergin: Well, that's right. It wasn't a really big matter or sore subject, but it was, I'm sure, always a bit of a thorn to them that we were right there in Texaco's backyard. They certainly were receptive to the idea of Caltex moving away from New York when it was being discussed and before it actually happened. They were very supportive.

It was in the mid-1970s that Jim Voss was looking at the cost of running the New York office of Caltex, which in a sense is all overhead because we're not selling anything in New York and it's an enormous overhead cost to be the headquarters organization. He was aware that New York is not a low-cost area. It's a very high-cost area in which to operate and getting more so all the time. Voss concluded that we really ought to look at moving somewhere else, away from New York. We could operate somewhere else just as well. So he assigned a team to work on that. In fact, Jim Wolahan headed up the team. So that was the beginning of the studies, in about 1975, that ultimately led to our moving in 1981.

There were differences of opinion between our two shareholders on our moving.

Marcello: Would you care to discuss that?

Yergin: Guardedly (chuckle).

Marcello: Would you guardedly discuss that (chuckle)?

Yergin: As I indicated, Standard of California was in favor of our moving. The only question was where. Texaco was not convinced that we ought to move and resisted, really, for a number of years, and that stalled the whole study. We'd done studies on a number of potential locations for moving, but there were always objections. So nothing came of it until 1981. As a matter of fact, it was at Pebble Beach in California in February of 1981 that Mr. Keller sat down to breakfast with Tucker, Voss, and myself and told us that it had been agreed that Caltex could move from New York, and so we should get to work and find out where to move to. So we did.

We had done, of course, many studies. Prior to that, in the previous year, there had been talks and finally sort of a reluctant agreement between them that we could move to Denver if we wanted to. We quickly survyed that and concluded, "Thanks very much, but no thanks." Denver was not an appropriate place for Caltex. It was too remote at that time, not easy enough to get to places we needed to go to; and simply Caltex would be too big a company to be in Denver, and we'd stand out like a sore thumb. So we said, "No, thanks." We kept insisting that our studies indicated that Texas was the appropriate place for us.

It was in this meeting in Pebble Beach in February of 1981 that George Keller told us they had finally reached agreement and that we were clear to move to Dallas. So that was the beginning, and then we spent many months after that figuring out exactly where to move in Dallas and so forth. Immediately after we got back from that meeting in California, Voss, Tucker, and I flew down to Dallas together to take a preliminary look. We met with the InterFirst Bank people, the Republic Bank people--all of whom were very helpful--and with various others to get a lay of the land and an idea of what we were in for. At the time, the newspapers here were full of big banner headlines about this huge company that was moving to Dallas; the biggest company headquartered in Texas was the way they headlined this, which is a little embarrassing because we're not as big as Exxon or Shell or even Texaco. But they said, "No, but you're headquartered here, and those companies aren't headquartered in Texas." That's what they were seizing on. At any rate, there was tremendous euphoria in Dallas because they had won a coup over Houston by getting Caltex to come to Dallas instead of going to Houston, where all of the other oil companies were.

We came down, the three of us, and the newspapers were a little discomfited; they cited the fact that we were low-key and came in secretly and weren't talking with a lot of people and so on, which was just our style; we didn't think anything about it. We weren't being secretive. We did, after months of study, decide on this particular location for the office.

I might go back, because this is interesting. Before the decision was finally made to move to Dallas, I was asked by our shareholders--at that time I was only a senior vice-president or maybe an executive vice-president--to make a quiet survey, even though Voss and Tucker were there. I guess they figured Voss was a Texan and Tucker was a New Yorker, so there wasn't any use asking them. They asked me to survey certain key people in Caltex to find out what their views were about the pros and cons of moving to Texas.

So I did, and I reported back to them. It was generally favorable. We felt we could operate effectively outside of New York and so forth. There would also be advantages from the standpoint of the lifestyle of our people, our expatriates, our recruitment of young college people, and also because of the cost factor of headquarters here rather than in New York.

Marcello: I'm sure the airport would have played a factor, too, would it not?

Yergin: That was a factor in selecting the particular location; it was a very big factor. At the time, really, we didn't know anything about the geography or logistics of Dallas. We simply had picked Dallas for more general reasons. When we came here and looked and had Cushman and Wakefield do studies for us on available space and time frame and costs and so forth, they surveyed a hundred or so different possibilities--currently availables, future availables, and so on--and eventually narrowed it down to about five final locations. We wound up with this area here, Las Colinas, as being the place we wanted to be. I had a lot to do with it, I guess, and I'm very pleased that we made that good choice after first deciding to come to Dallas.

The choice of Las Colinas as the place for the office was a very good one. I'm certainly very pleased with it, and I think everyone else is. It's out of the hustle and bustle of downtown, and I quickly concluded there was no use coming out of 380 Madison Avenue in New York and moving downtown in Dallas. We had no motivation for being downtown. This location is very good because it's only fifteen minutes from the Dallas airport, which is ideal, and yet it's still only fifteen minutes from downtown when I have to go down there for meetings or luncheons and so forth. People can live in a lot of different places and still be in relatively convenient spots for commuting to this location. It has proven to be a very good choice in a rapidly growing and well-planned and well-controlled environment.

Marcello: Tucker wasn't that enthusiastic about moving to Dallas, was he?

Yergin: Personally, no. He didn't let his personal feelings, however, obstruct the movement. He wasn't enthusiastic about it, I guess is the best way to put it. Certainly, personally he wasn't enthusiastic. He was only actually here from September of 1982 to August 1, 1983, when he retired, so he didn't spend a lot of time here.

Marcello: I've also heard it said that you were receiving a certain amount of pressure from city and state authorities relative to minority hiring in New York. Is there any accuracy in that information?

Yergin: Not in the sense that it had anything to do with moving. It didn't have anything to do with that. It's a totally separate issue. I would say we had certainly no more problems than any other company in New York. It was just a standard requirement that you had to comply with the EEOC--the Equal Employment Opportunity Commission--and the state and city requirements, which were quite similar. We were in compliance and met periodically with them and were able to demonstrate that we were making progress in the objectives. It was not a reason for us to leave New York and come here. You still have EEOC here. That's a federal requirement, anyhow.

No, it was more the high costs and future higher costs and the unattractive living environment for our people. To be specific, one of the things that certainly influenced me is that we do depend on recruitment of college graduates --master's graduates and so forth--both to serve overseas and ultimately in senior positions in the headquarters. Since we operate only in one location in the United States, it's important where that location is. For other companies, IBM and so forth, there are other locations; they're not just in one place. So if people are dissatisfied in one geographic location, they have an opportunity to be moved somewhere else. We didn't have that, and people who were coming to work for us or seeking to get them to come to work for us these days are very forward-looking and selective. Even for those that we had acquired, our typical pattern was to send them overseas for a period of time and then bring them back to headquarters to take positions when they were maybe in their middle thirties or maybe early forties. By that time they had families; they'd grown accustomed to living as senior executives of field companies in comfortable environments. When they came to New York, they could not afford to live anywhere in that sort of environment, unless they went way out of New York--way up in Connecticut, up to Bridgeport, or way out on Long Island or way out in New Jersey. They would travel for an hour or an hour-and-a-half each way every day, and this made it very difficult to persuade people to come back to New York and work for us in that sort of an environment. That was, I felt, an important aspect.

Certainly here in Dallas, people have much more opportunity to select the location that they want to live in and still be within reasonable commuting range and have a lifestyle that they would want their families to enjoy.

Marcello: You mentioned something that I want to follow through on. I should have asked this earlier, I guess. You talked about transfers. Do you think that perhaps in the early years of the company people may have been kept out in the field too long?

Yergin: Yes and no. There were some people who wanted it that way--some people who are just born expatriates, I guess. They never wanted to come back to the head office. It's certainly true that the number of opportunities available in the head office are limited, so in the days when we had hundreds of expatriates overseas, it simply was impossible to be sure that you could have a position for any of those who might want to come back to the United States. That's the reason that I cited to you early on, that I was prepared to leave Caltex in 1951 because it didn't look like there was an opportunity for me, since I didn't want to go overseas. This was a factor.

Today, we only have about a hundred people on an expatriate basis all over the world, and some of those wouldn't continue to work with us if we brought them back here and made them take a position. They simply like the overseas life, so they're not all hankering to get to Dallas and so on. In fact, with some of them, if you threaten to bring them back, they'll quit. Today it's not really a problem. In fact, it's almost the other way around. There's almost a shortage of people from whom we can draw to fill positions that we need here in Dallas, because we need them overseas. It's a smaller pool of people. That's really what the story is.

Marcello: I think you were right in what you said a moment ago, relative to the fact that certain people couldn't adjust once they came back to this country. I think you had some people up in New York who came back and were promoted to higher positions and never really adjusted.

Yergin: No comment (laughter).

Marcello: Let's see, what was the next question I was going to ask you (chuckle)? Is it possible to perhaps develop what the military calls a sense of "localitis" by being out in the field too long? Does one, perhaps after a while, get an "us against them" attitude relative to New York?

Yergin: It's possible. I think in recent years that doesn't exist as much because of the things that I mentioned--the chief field executives conference and the fact that we frequently ask people, when they're on home leave, to come by here and talk with us. Also, in the early days, and even when I joined the company, a typical overseas tour was three years. I think in earlier years it was even longer, but it was three years when I joined. Now it's one year optional so that they're back and forth much more often. In the early days, you'd go out, and you'd be gone like missionaries for seven years and that kind of a thing. It was much easier then to get this "us and them" or "who do those guys back there think they are?" So there was a good bit of that that just naturally kind of evolved. Now there's much closer interplay, and there's more travelling from here to there, which keeps us in closer touch.

Before the jets were around and you had to go by boat, there was not a whole lot of visiting from the head office. In fact, the same Frank Martin that I mentioned earlier, who was my good friend, as was his wife Helen--they were responsible for getting me into Caltex--he had been started with Texaco as a travelling auditor. I've heard the stories about how he was engaged but not married yet when they sent him on an overseas audit tour, and he was gone about three years or more just on the audits--taking a boat from one place to another, gradually going around the world. They finally wanted him to stay in Australia, and he said, "No." He said, "No, if I stay any longer, I'll lose my bride--my fiancee." So he finally persuaded them to bring her out to Australia, which she did do, and they were married in Australia. It was a way of keeping him in the company. Times were different.

Marcello: Given the transportation and communication of that pre-World War II period, when you had people in India and China and Australia, they must have had a great deal of autonomy.

Yergin: Yes, inevitably they did. You couldn't wait to hear from New York. Even the telephone didn't exist in a lot of those places, and cable or telex communications were very inadequate. I don't say it from first-hand knowledge, but I'm sure they had to do things when they had to be done and couldn't wait for specific clearances and discussions as we do now. Sometimes we wistfully wish we could do the same again (chuckle).

Marcello: In 1983, you assumed the position of chief executive officer of Caltex. To my knowledge, you were the first finance man or fiscal person to attain that position. Your abilities and achievements aside, was there any connection between the fact that you were a finance person and your appointment as chairman?

Yergin: No, I think probably I was appointed chairman in spite of that. (Chuckle) I think I overheard George Keller once say something that applied. They put me in there...although he had some misgivings about my lack of technical knowledge. Of course, George is a technical person. No, I don't think so. I think I just simply outlasted the rest of them. Among Voss, Tucker, Zingaro, Lewis, and myself, I was the youngest of that group, and I just outlasted them, until the next group comes along.

Marcello: Since you...

Yergin: If I can go back to that, I think the role of chairman in Caltex--a great part of it--is dealing with the shareholder companies. Because I had been involved in the senior management of the company since 1967, they felt comfortable with me. They knew me; I'd been dealing with them for a long period of time. I think that had a lot to do with why they wanted me to stay and be chairman.

Marcello: Let me ask you this. It was around this time--I can't recall the exact dates--that Texaco purchased Getty for a bunch of money and Chevron purchased Gulf for a bunch of money.

Yergin: Shortly after I became chairman, yes.

Marcello: They obviously had to borrow money to make those purchases. I guess what I'm wondering is if, in one way or another, Caltex perhaps might have been involved in helping them service that tremendous debt that they had taken on.

Yergin: No, not at all, really. They didn't come to us at all. On the other hand, our position--from a cash flow and financial point of view--was very strong and has been strong in recent years especially. We have been transferring very large amounts of cash to both shareholders for a number of years now. I would say, not directly related to their borrowing situation, they were very appreciative of the fact that in the last two years--1984 and 1985--we have paid $550 million of dividends each year to them. So it's $1,100,000,000 over the two-year period, which very greatly exceeds our earnings for those years, but it distributes some of prior years' earnings which had not been distributed. It still leaves us with about $2 billion of net worth. That's cash that we were able to pay over to them, and I know it was very welcome to them in view of the heavy debt burden that they had.

Marcello: One of the previous individuals that I interviewed mentioned that--I hope I'm quoting him correctly--mentioned that for years, Caltex carried--that was the term he used--carried Chevron and Texaco. What did he man by that? Maybe you don't know what he meant by that. I'm assuming that he was referring that they carried the companies financially--the parents.

Yergin: I really don't know exactly what they meant by it. It may refer to the fact that because we were the principal outlet for Saudi Arabian crude, and there was so much profit available from the sales of Saudi crude, that the annual profits accruing to Chevron and Texaco from our sales of crude out of Saudi Arabia in particular were a very large factor in their earnings. I think it would be an exaggeration to say that we carried them, but we certainly contributed a great deal to their earnings.

Marcello: Which, of course, was a part of your function.

Yergin: Right. That's what we were there for (chuckle).

Marcello: On going through a great deal of the literature in preparing for these interviews, I've run across the statement again and again and again that Caltex always takes the long view toward its activities and toward its interests. What is meant by that?

Yergin: It's inherent in what I said earlier about our feelings about South Africa, for instance. We've been there since 1911, and, God willing and we do things right and others do things right, we hope to be there for another fifty years or so, at least. The Caltex principles, which I'm sure you're familiar with and are frequently printed, we really believe in them. Because the companies of the Caltex group believe that cooperation is the basis of economic progress, the conduct of the business is governed by a set of basic principles. These are--not to read them all to you--to comply in letter and spirit with the laws and regulations of the governments in the countries where Caltex operates; to help strengthen national economies and the well-being of people in all Caltex areas of operation through the application of sound business principles; to stimulate the development of local industries and so forth. These are all things which we feel are simply commen sense parts of being a citizen in the country and wanting to be able to hold our heads up and be responsible corporate citizens and to make money. We're not there just to be good citizens, but we fell these things are consistent with the long-term objectives we have of simply being there.

Again, to people who aren't familiar with international business, this may sound strange until one reminds them that Shell Oil is no different here than we are in the countries where we operate. Shell Oil is not an American company, but people here tend to think it is, and Shell is quite happy for them to think that way. That's the way we are in the companies where we operate. We don't buck them or try to change them any more than anyone else does.

Marcello: There's one last thing that I want to get your comments on, and several people I've interviewed have talked about this. They refer to the so-called "Caltex family." Have you ever heard of that term being used?

Yergin: Oh, yes, always.

Marcello: What does it mean to you? What does the concept mean to you?

Yergin: It's used in several ways. The Caltex family is the family of companies. We always refer to them as a family of companies. I think it more aptly describes the corporate arrangement than anything else because some of the companies that are in this family are children, if you will, and grandchildren, if you draw lines; but there are others that are a little more remote. They're like cousins or second cousins; they're partly-owned or partly-owned companies of partly-owned companies. There are some of which maybe we don't own anything, but they're an integral part of the operations. The term family in that sense is appropriate to encompass the whole range of types of corporate entities.

But more than that, it means the people of Caltex. We all feel like we're part of the Caltex family, and we use that expression quite often with feeling in our thinking. I think that people in other parts of our family feel the same way, and we want them to feel that way--that they're part of the family, whether they're Filipinos or South Africans or Kenyans or whatever they are. The interplay and moving of people back and forth and communications is what contributes to that kind of a family feeling. Not to get too carried away, but I do feel strongly about it.

I think that the long-run hope for the world is to have a family of nations where they feel interdependent and so forth, rather than pulling in their wagons and taking a stand against people. They should all get together and be part of a family. That's the way we feel in the company. Our business, in spite of some critics of industry talking about military-industrial complexes or something like that, does not thrive on conflict and wars. We thrive on business and development and growth in economies. We're in favor of peace everywhere because that's the best thing for our business.

Marcello: I think that's probably a pretty good place to end these interviews. I want to thank you very much for your time. I think you said a lot of interesting and very important things, and I'm sure that they'll be a real contribution toward the writing of the history of Caltex, not only from a business point of view but, I think, from a personal point of view, also.