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STEPHEN E. VAN NOSTRAND
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Place of Interview:	<u>Austin, Texas</u>
Interviewer:	<u>Dr. Ronald E. Marcello</u>
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Caltex Oral History Project

Steve Van Nostrand

Interviewer: Dr. Ronald E. Marcello

Date of Interview: April 10, 1987

Place of Interview: Austin, Texas

Dr. Marcello: This is Ron Marcello interviewing Steve Van Nostrand for the Caltex Oral History Project. The interview is taking place on April 10, 1987, in Austin, Texas. I'm interviewing Mr. Van Nostrand in order to get his reminiscences and experiences from his long-time career with the Caltex Petroleum Corporation.

Mr. Van Nostrand, to begin this interview, would you give me a brief biographical sketch of yourself? In other words, tell me when you were born, where you were born, your education--things of that nature.

Mr. Van Nostrand: I was born in Holyoke, Massachusetts, in May, 1918. I grew up there in two separate stages. When I was about one year old, I went up to New Hampshire, where my father was a dentist servicing two small villages, Bristol and Penacook. We spent eleven years in New Hampshire. At the end of that time, we had family problems, and I moved back to Holyoke with my mother and my sisters.

I graduated from high school and began working with the old Worthington Pump and Machinery Corporation, which is

now known as the Worthington Corporation. They had a training program in engineering that I enlisted in, and then I went to night school in order to pick up some other, more technical, information for the job. At the outbreak of World War II, I was doing military work in the engineering department and had a deferment against the draft.

I had always wanted to fly. I was always interested in aviation. When they lowered the requirements from a college education to two years equivalent, I took the competitive Air Force examinations and qualified and came down here to San Antonio, Texas, to Kelly-Randolph Field and went through training in Texas, and finally graduated in Louisiana. I spent a couple of years flying fighters in Alaska and the Aleutian Islands after graduation.

I went out to China--western China--in 1944 and flew the Hump, the operation over the Himalayas, between India and China, for a year. Then I ended up as the last commanding officer of the Air Transport Command detachment at Kunming Air Base. I deactivated the base in December of 1945 and went on up to Peking and installed another Air Transport Command detachment there. I spent about eight or nine months as its commanding officer and finally went down to Shanghai as director of operations for the Air Transport Command on the four-engine passenger run between Shanghai, China, and the West Coast of the United States.

It was in Shanghai that I came in contact with the Caltex people for the first time.

Marcello: Describe how this came about.

Van Nostrand: There had been a Caltex operation of rather minor consequence in China in the prewar time. But in 1946, when they reopened their office there, it was under the authority of Mr. Phil LeFevre, who has appeared in your history prior to my interview. He had the idea that aviation sales should be a very strong part of the rapid expansion of Caltex's activity in postwar China. So he began to assemble an operation in China, spread out all over China, to service the China domestic airlines. At about the same time, through the New York aviation organization, he was able to contract with Pan American for their first flights into Shanghai.

As I said, I was at that time the director of operations of the airport because the Air Transport Command had supervision and authority over it. The Caltex people came out and wanted to secure our cooperation in allocating ramp space for their refuelers and also tankage for their particular product for the first Pan American flight. The inaugural flight, incidentally, had Time-Life people on board. Claire Booth Luce and her husband, Henry, were among the dignitaries that made the flight.

At any rate, I became very friendly with the Caltex people at that particular time while setting up these

facilities at the airport for Pan American operations. They made a few queries as to my interest in leaving the Air Force and going to Caltex to take part in this aviation expansion program. I was regular Air Force, and I was very interested in military aviation and had no interest in going back to commercial work. I was going to make it my career.

Marcello: Had you ever heard of Caltex before this initial contact?

Van Nostrand: Never, no. When I first saw the red star, it was very suspect (chuckle) in my thinking. But, of course, as soon as I began going to their cocktail parties and spending time in business meetings with them, I learned about the parentage of the company and more about its operations. And there was a dramatic--romantic, I guess you'd say--sidebar to this operation in that Mr. LeFevre's secretary was my future wife, Nicky, at that time. A third element of cause for my going to Caltex was that in early 1946, the Air Force discovered that it had more pilots than it required, and they did not want to separate them from the service. They felt that they needed this group of trained people, and they wanted to recover them at some future time, so they were offering them promotions as officers in the infantry in the Army--in other branches of the service--where there had been a more rapid exodus in the immediate postwar years. At any rate, I had no interest in being an Army officer. I wanted to fly, and so I began to think seriously about the Caltex offer.

About six months after the first offer, I was at a cocktail party celebrating the departure from Shanghai to Japan of the first Caltex man to go over there to open up postwar--Les Carson. At that particular party, Phil LeFevre himself renewed the offer and sweetened it up a little bit. This included going back to the United States to be hired. In those days company policy dictated that you could not be hired overseas unless you were going to be on the local payroll. So they set it up so that after I was discharged from the Air Force I could report in to New York and then be officially hired by the company. I embarked on an aviation training program travelling with the Texaco aviation representatives and the Social representatives here in the United States. Then I was assigned to my first post, Hong Kong.

Marcello: Let me stop you here for a minute and ask you a couple of general questions. So you're initially hired by LeFevre, and then you are sent back to New York.

Van Nostrand: For official employment, yes.

Marcello: Describe what happens during that period when you're in New York.

Van Nostrand: Well, Caltex was in the throes of opening operations in this immediate postwar period in many different countries. I would say that there was not (chuckle) much interest in spending a lot of time interviewing me. It was almost a

rubber stamp thing. I went in, and I met the man in charge of aviation in those days; and I met the vice-president in charge of the area and, of course, the president of the company. Then I was told to take a few days and go off and, among other things, get married (Nicky had accompanied me home) and buy a civilian wardrobe.

The training program was very interesting. I was assigned to fly with their aviation representatives--Texaco and Socal--who all had their own aircraft. I came down here to Texas and flew with a couple of men from the Texaco aviation branch. It was a very interesting and, I thought, very useful experience because at the time of my employment I knew absolutely nothing about the oil business--absolutely nothing. So at least I gained a little insight into it from my travelling with them.

The only other function that the New York office filled at that time was to set up our transportation arrangements once we knew where we were going and when we were going. That's when we took off for Hong Kong.

Marcello: What was your assignment, then, when you got to Hong Kong?

Van Nostrand: I was assigned as aviation representative, South China. There were two of us in aviation in the district office. A very experienced old pro by the name of Dave Rowsome was the district manager there. I was very fortunate to be assigned to Dave because he knew the ropes. He really knew the oil

business. But the delightful thing for me--travelling as I did to Canton, Swatow, Amoy, all over the country and down to Indochina, including Hanoi and Saigon--was that I was constantly running into the personnel of my customer airlines, the China aviation airlines. Most of them were from my old squadron in Shanghai because we were the only four-engine transport pilots in the world at that time. The DC-4 (C-54) was developed during the war, and the Air Transport Command was the only organization that had them. So those men were very much in demand at the end of the war and were hired at very high salaries by the China domestic airlines, who were buying these airplanes and were going to operate them on transpacific routes and also internally in China. That was the gang that would come into Tai Pak Airport in Hong Kong and then end up on our patio in the evening.

Marcello: So from the very beginning, then, that is, once you get to Hong Kong, you are in essence in marketing.

Van Nostrand: Oh, definitely, yes, although aviation bridged the two functions of the office--marketing and the handling of and storage of products (receipt of products and dispensing it). We had our own small terminal at the airport, and we linked to our Chun Wan installation, the bulk plant, by aviation barges. The tugboats would bring them up, and they'd discharge into our airfield tankage. Then we had these enormous 4,000-gallon surplus Air Force tank trucks that we used to refuel

the airplanes. This was before the days of hydrant systems. It was a very formidable operation.

There was an interesting experience in connection with it in that our principal customer, which was the China National Aviation Corporation, moved from Shanghai ahead of the Reds--communist Chinese--who were taking over the country, and set up their operation in Hong Kong. They moved all of their personnel and their aircraft down there and operated for a few months. Then suddenly one morning, we opened up the morning paper and learned that a very large number of the pilots and principal administrative staff had loaded the newest and best equipment there at the Hong Kong airport and flown off to Shanghai. They defected back to the Red cause. Of course, this brought the operation to a grinding halt.

At that time, my job was, of course, to collect for our sales to all of these airlines and make sure that the accounts were not delinquent. We had this airline on a ten-day payment basis. Every ten days they had to pay for whatever supplies they had acquired. At that point in time, when they defected and flew back up to Shanghai, their ten-day bill was due, and it was half a million dollars. I remember going to see the little old Chinese gentleman with whom I had conducted that facet of the business, Mr. Wang, in his hotel room in the Peninsula Hotel. I got him up at 7:00 in the morning. He

said, "Mr. Van Nostrand, don't worry. We owe this to Caltex, and it doesn't matter what has happened to this airline. We are going to pay." Indeed, they did.

Jim Voss at that time was in Hong Kong waiting to go back up to Shanghai as a replacement for one of the hostages there in the Shanghai office, Blaine Holomon. Jim didn't have too much to do. He was just standing by. So the China National Aviation Corporation called me in the next day and said, "Here's the way we're going to do it. We have an account with \$4 million in it in California, in San Francisco. It's in Wells Fargo. What we would like you to do is to bring suit against us for the half-million dollars, and then we will attend the suit. We will have personnel there to observe, but we will not defend the suit. As a matter of form, you will recover whatever is owed to you plus the expenses you incur between then and now and, of course, including the court expenses." So Jim had some work to do. He went running around with the barristers or the solicitors in Hong Kong getting affidavits together and preparing the case. It went off like clock work. Just as they said, they observed the thing, and we got our money immediately. It's an interesting experience with the Chinese integrity, I guess you could say.

Marcello: What training had you had at this point relative to marketing, or was it all simply on-the-job training?

Van Nostrand: It was all simply on-the-job training. When I worked for Worthington--as I say, I worked out of the engineering department--my particular job the last two years had been to compile the parts list and instruction book that accompanied the product to the market. So I worked both with the sales department and with the engineering department in putting these things together. But that was the only sales experience I had had.

Marcello: Those must have been rather tumultuous times politically in China.

Van Nostrand: Well, they were. As a matter of fact, the ending of our three-year assignment in Hong Kong was not that pleasant. Dave Rowsome had very wisely decided we should evacuate the women and children in the Caltex office. They had already evacuated the Shanghai office, of course. We still had many of the Shanghai personnel bunked in with us because housing facilities were extremely short in Hong Kong. I had two men living with us. Two bachelors, Jack Wolf and... let's see...who was the other one? I also had one of the airline pilots that was now living in Hong Kong. One of my old squadron mates lived with me. Oh, Julian Schon also lived with us. These Caltex people were waiting for visas for places like the Philippines or India--other new assignments. At any rate, we had a large number of experienced Caltex people there, but now we had lost this great market

in China to the communists. So job placement was very difficult. I guess we in Hong Kong were among the last to be placed because when the Chinese communists got as close as Canton, and everyone was worried they were going to spill over the border and take back Hong Kong, we evacuated the women and children.

They suggested that everyone that was close to home leave time should leave. Well, I qualified for that. There were about seven or eight of us who were each presented with a letter as we left, saying, "You understand the situation now. We've lost a lot of market. We may not be able to place you after your vacation, but go off and have a good time." (chuckle)

I went into New York when we got home. Of course, we were a little upset by the situation, but we understood it. I went in to see the vice-president. By then we had two boys that had been born in Hong Kong. I said, "I've got to have some means of support so that I can clearly see the future." Our home leave in those days was six months because we had been out three-and-a-half years. I said, "I can't wait until that's over to see what my destiny is going to be. I have my old company, Worthington. I had been in constant contact with people there, and they have always said they would be interested in my coming back." I said, "I think I should go back there and not take my home leave and see what I can do

about reemployment." This vice-president, who shall be nameless, told me that was a very good idea. I was one less worry to him, of course, for future placement.

But I got a telephone call as soon as I got back to the hotel room. I guess word got around the office. I was told not to do anything by a friend, Gene Menefee, who was in charge of marketing operations at that time in New York. We made a date for lunch the next day at Toots Shore's with the vice-president in charge of marketing operations. They said, "We want you to come with us. Leave aviation and come into marketing operations with us. We've got a slot right now, if you want it, in the Philippines." I said, "Well, I'll talk it over with Nicky this evening and let you know."

I got back to the hotel room, and there was another message. This was from the vice-president who had told me to go back to Worthington. He was in a real dither. He said, "We have a job for you, but you've got to go tomorrow, and it's in the Washington office." The Korean War had broken out, and they needed somebody in our Washington office who had had field experience. They had two or three very competent people there who knew the Washington scene very well.

Now Caltex was in the throes of attempting to build refineries all around the world: Spain, Italy, and three in Japan. The United States at the outbreak of the Korean War was allocating steel, copper, and aluminum out of the

mills in the United States by quota because they had to reserve most of the production for military use (first priority) to support the Korean conflict.

So we went down two days later. It was to be a six-month, temporary assignment in order to set up the paperwork with the government to secure our quotas of these materials to ship out to these countries. This was my first contact with Caltex (Japan) because one of my projects was securing the special materials for the reconstruction of the Marifu refinery and the Kudamatsu refinery and the Yokohama refinery. They were just names up until then. I got very, very well-informed about those facilities by going every day to the government and discussing and arguing for our share of materials. At any rate, the six-month temporary assignment turned into a five-year assignment. I like to say it was two years of working there and three years of trying to get out.

Marcello: So you were in Washington five years, then.

Van Nostrand: Five years. But I was trying constantly to get back to the field. I hadn't joined Caltex to be in a domestic operation; I joined them because I liked to work overseas. So then I guess I became such a pest that they said, "Well, we've got a job for you." I suspect they felt I would never take it. They said, "We've got a little operation in Okinawa that needs a manager." I said, "When do I leave?" And I spent two years there where we had a contract to operate the

oil business essentially for the Department of the Army.

Marcello: When was this?

Van Nostrand: That would have been in 1957.

Marcello: So you were there approximately from 1957 to 1959.

Van Nostrand: I was there until December of 1959, yes, sir.

Marcello: Talk a little bit about that Okinawa operation while you were there. First of all, what was your specific position and responsibility?

Van Nostrand: I went down there to be its manager. I was being a little facetious when I talked about them not thinking I'd take the assignment. I think they felt that because this was a contract that we were servicing with the U.S. Army, the Washington experience would be helpful for me. We had been told by the civil administration on Okinawa, which had the authority over our operation, that they were going to phase us out. We had made a five-year contract to supply the civilian economy exclusively. It was a monopoly. We were also to train Ryukyans to take over the business ultimately. This contract was a five-year contract drawn up, incidentally, by Jim Voss. It had existed for a couple of years on its "evergreen" feature, which was that in the absence of an eighteen-month notice of cancellation by either party, it would continue on for another year.

They had told us they were going to exercise their option, that they were becoming more and more vulnerable

even though they owned the damned thing, because visiting congressmen were starting to arrive now. They had discovered places like Okinawa and Japan, and when they saw only Caltex service stations--fifty of them--around the island: "What's going on? Where are my friends from Exxon and Shell?" Then it had to be explained that we were just the organization that ran the show for them, to keep them from having to run that aspect of the civil economy.

It was a very successful operation for us. We had a contract that provided good prices for Caltex to lay down the finished product from its refinery in the Persian Gulf--Bahrain Island--at a time when they needed that volume. In turn, we marked up the product to support our local operation by a very small margin. And then in cooperation with the United States government, we determined what the selling price would be and therefore what the profit would be. The profit was to stay with the U.S. Department of the Army. We were throwing up quite a few million dollars a year as profit for the Department of the Army. Now these were non-appropriated funds from Congress, so there was no Washington accounting for them, and it made it a very popular source of revenue for the High Commissioner. He could make his operation more popular with the Ryukyan population--we handled the whole island chain--by being able to take these funds, say, after a disastrous typhoon, and go down and give the village head man a nice fat check to rehabilitate the village. It made

him politically very popular and therefore kept Okinawa a very quiet, placid place for the United States to have a civil administration. Once they understood, after a whole series of meetings I held with the commanding general and his staff, that this monopoly wasn't our monopoly but theirs, then they wanted to perpetuate it. From then on there was no talk of cancellation. We went on with the "evergreen" contract for another four or five years, I believe. It was very profitable for both sides.

Marcello: So at this stage, there is no refinery in Okinawa, and all your product is coming from Bahrain.

Van Nostrand: That's exactly right. And that subject of refinery is what destroyed the golden years. The Okinawan economy did not have enough consumption--I guess it was a million-and-a-half barrels a year or something like that--to support a refinery. But by now in Japan, Caltex, which was the new boy on the street, had grown to such a size and had so many refineries, that it was the major market operator. It had the largest share of the market with its Japanese partners.

People like Gulf, for example, could not gain entry to that market. They couldn't get permission from the Japanese government to operate. They wanted a refinery, so they began to think, "Well, ultimately the United States is going to give Okinawa back to Japan. It will resume its prewar status. So if we're situated on Okinawa with a

going facility, then they have to accept us. Then we've got our foot in the door." So that was the reason why they pressured Congress and the administration and everyone else that they could get to with the fact that this monopoly with Caltex had gone on long enough. Now they were willing-- and even Exxon was interested--to build refineries on Okinawa which they maintained would improve the local economy. Obviously, they had to be a large refinery to be economically viable, but it was far in excess of what the island could absorb. So, therefore, this would be an export base for Southeast Asia and as far north as Korea and down to Indonesia for the benefit of the Ryukyans.

The civil administrator gave us our eighteen-month notice. This was the kind of pressure that couldn't be ignored. At face value, why, it appeared to be a good idea. But we knew what Gulf was up to even if they didn't.

Marcello: How was it that Caltex was able to gain that monopoly as opposed to one of your competitors?

Van Nostrand: I should have mentioned that there was a bid proceeding in MacArthur's headquarters in SCAP in 1949 or 1950, where all the oil companies interested were invited to table proposals. Tidewater, the old Getty organization, and Esso and Mobil, Caltex, and perhaps one other...I think there were that many people who did propose. Ours was most attractive to the civil administrator and to SCAP, so they

awarded it to Caltex. It was a bid proceeding.

But now with the refinery coming in, I was, of course, up in Japan. I sat down with the then presidents of the Nippon Petroleum Refining Company and of the Nippon Oil Company, Mr. Arai and Mr. Kamimura. We had to decide what we would do about Okinawa. Because we had had all this experience on Okinawa, the Japanese felt that we should do something to keep our foot in the door, that we really should not abandon this market to others. So we proposed to build a very small refinery, a very economic facility of about 28,000 barrels a day, and we actually cannibalized some units from the Koa Oil Company in Marifu and moved them down there to erect this new facility. It's limping along today, but for a while it was an attractive addition to our operation in Japan where we were short of refining capacity.

Marcello: Was this refinery that was built...was it built in such a manner as to accept both the Arabian crude and Indonesian crude?

Van Nostrand: It was designed to be an Arabian crude refinery, but our refinery site was located near a small village which was, I guess you'd say, dominated politically by the Okinawan Communist Party, which was a very strong party in those days. They threw up all sorts of roadblocks to try to prevent the facility from being constructed. One of the roadblocks was a pollution problem for their adjacent villages. So as a

measure of overcoming that obstacle, we agreed we'd now design the refinery to run only a low sulphur crude--Minas crude--from Indonesia. And we did that. After a series of conferences with them and setting aside all of their concerns, we did get permission to go ahead with the construction and operation.

Marcello: Let me ask you this relative to that Okinawan refinery. Was it more or less a defensive measure?

Van Nostrand: Oh, definitely. Definitely.

Marcello: In other words, if you wanted to keep your market share in Okinawa, it was necessary to build a refinery.

Van Nostrand: That's exactly right. It had been a prewar market for the Nippon Oil Company, our marketing partner, and they just disliked the idea of abandoning it. In those days, we all talked very expansively about the future of Okinawa as a duty-free port like Hong Kong or as a great resort. It has gorgeous beaches, and with the assignment of a lot of money it could become a very popular resort area. Of course, none of these things ever came to pass because we still use it as a military base, and a very important one, and that is the support for the economy. That's the invisible export. They can't grow or produce on the island anything that is attractive in international markets. They grow a little sugar cane, but it doesn't really contribute to the island economy. It's mostly invisible exports, like what

the United States military provides.

Marcello: Describe the relationship that developed between Caltex and the military on Okinawa.

Van Nostrand: As I say, when I first went there...unfortunately, my predecessors had listened to the civil administration-- civilians--who were responsible for the civil economy. They tried to keep the details of the operations strictly between the two entities, Caltex and the civil administration. It was very bad strategy because the military, which was the predominant authority, became very suspicious of what was going on, and that was one of the reasons that we were told we were going to have to phase out, that they were going to provide us with our notice. It was really ignorance on the part of the high commissioner. Once he and his staff were informed of what they had there, then they became the great sponsors of Caltex and the operation, and it led to, as I say, our perpetuation.

But the relationship became, I think, very close. My family and I were afforded very high equivalent military rank while living there, and our sons went to the military dependent schools. I played softball in the military league and all that sort of thing. I went to all of the big functions that were sponsored by the high commissioner. It was a very attractive life. In fact, when we were told on home leave that we were to be transferred now, after two years on

Okinawa, to the Japan operation, both my wife and I drove all the way up to Massachusetts without speaking. We were just so unhappy at the prospect of leaving Okinawa. It was a very interesting job and a very good existence for the family at that period.

Marcello: So the operation on Okinawa, then, is strictly a Caltex operation. You're not connected directly with Nippon Oil or anybody else.

Van Nostrand: Oh, no. In those days I reported directly to New York. We had a company, a Ryukyuan company, which was an unusual situation, that we were supposed to be training to take over ultimately. The head of the company, the only man on Okinawa that really knew anything about oil, had been a Nippon Oil Company dealer in the prewar years up on an island called Amami Oshima, north of Okinawa. He was now living on Okinawa, and he was a very popular and very interesting and knowledgeable man. He had the idea that he wanted to take over from the military at the time Jim Voss was drafting the proposals to SCAP that led to our contract. But SCAP wouldn't think of it. They wouldn't think of providing an untrained and inexperienced Ryukyuan company with this thing. So finally, as a compromise, they said to Caltex, "Part of your mission is training. You are to provide advice and training to the company they're forming, Ryukyu Oil Corporation--ROCO." So Caltex trained these

people, and Mr. Inamani, the president of ROCO, established his organization. We began putting them into the business of distribution. They bought tank trucks. In order to spread out the training program beyond ROCO, each of our fifty service stations was an independent Okinawan businessman. We would find somebody in the area who had enough business knowledge and award him a franchise if the traffic count for a service station was appropriate. Now all of these men had their own association, and then ROCO had its separate organization.

ROCO began spreading out into activity that was not directly connected with Caltex, like, they went into the LPG business and built a yard where they could import bulk LPG and decant it into containers that could be used on the island. They grew to be quite an efficient and, of course, a very profitable organization because their costs were fixed, and they had to sell at the U.S. government-mandated price, so a margin was built into their sales. It was an instant success, you might say. It worked out very well for quite a few years.

But then, of course, all that changed when the United States Civil Administration, instead of saying, "Okay, Ryukyans, you've got the oil business now," they said to Gulf and to Exxon and to NPRC (Nippon Petroleum Refining Company), "Okay, you've wanted refineries. Now go to it."

That meant that each of these new people established their own dealerships. So ROCO today is a very small organization that operates, naturally, with NPRC, but it isn't the big company on Okinawa that it was supposed to be. Mr. Inamani, himself, actually ran for the Japanese Diet and was a member for many years. He retired just about the year, 1982, when I retired.

Marcello: During your tenure on Okinawa, what was the product mix? What were you marketing on the island?

Van Nostrand: Principally gasoline to service stations. At that time, because we were so selective in awarding franchises and keeping the number of stations at a practical minimum, we were pumping more gasoline in the average service station than ever was reached in Japan. They were some of the largest volumes in the whole Caltex operation--on Okinawa. But as I say, this was all artificial. This was all something you could control. There were no market forces arrayed against you--no competition. It made an interesting arrangement, though. The rest of the business...it's a large port area, of course, there in Naha, and we sold a lot of bunkers, fuel oil, to international ships under contract to Caltex in New York and to the Japanese. We sold quite a bit of material to the U.S. military, too--things that were in smaller volumes than they could obligate tankage for. Of course, the military plant there was a gigantic thing, and they didn't

have any small tanks. Everything was a big operation. So we serviced a lot of their requirements.

Marcello: What, essentially, was going to the military? Aviation gasoline and jet fuel?

Van Nostrand: And diesel oil. Some commercial jet fuel later on.

Marcello: What sort of a relationship was there between the Okinawan operation and the operations in Japan proper?

Van Nostrand: None at that time. It wasn't until the prospect of refinery construction became evident that Nippon Petroleum Refining Company executives began visiting to make surveys and to talk to us and to ROCO. Then, of course, it was just renewing an old relationship. Everything worked very harmoniously.

Marcello: So when did you leave Okinawa?

Van Nostrand: December, 1959.

Marcello: And you went from there...

Van Nostrand: On home leave. We were informed that we were now to be assigned to Japan. We arrived there in January of 1960, two weeks after the Voss's had left.

Marcello: At this stage, had you had very much contact with Voss?

Van Nostrand: No.

Marcello: Did you know him very well?

Van Nostrand: My original contact with the Voss's was in Shanghai while I was still in the military, because the Voss's had an apartment in the same apartment building that Nicky was living in. We used to double date a great deal. I'd go to

the parties at the Voss's house, and I got to know them very well in those days before I knew I was going to join Caltex. Then, of course, while I was in Hong Kong, he was assigned there to replace the hostage in China, so we had an overlap there.

When I was on Okinawa, he was in Japan. Nobody really wanted to visit Okinawa in those days, so whenever executives would come into Japan, we'd fly up there to be part of the briefings and that sort of thing. We usually stayed with the Voss's in those days. I think he came down a couple of times--I know he did--to Okinawa.

But then he went off, as I say, two weeks before we arrived in Japan for our assignment. He went off to Australia. Then we didn't see him--except on home leaves and incidental passings--for many years.

Marcello: So in 1960, you're assigned to Japan. In what capacity?

Van Nostrand: As head of marketing.

Marcello: Head of marketing for Caltex operations in Japan.

Van Nostrand: That's right. I did this for two years. The department managers in Japan also filled the slots on the board of directors for the partnership operations. Half of our directors were drawn from the local operation, and half were drawn from New York. So we served as bodies in the capacity of directors. That started right away. Even though you were working almost exclusively on Caltex operations--aviation, bunkering, and things that we were directly involved in--

still we had this oversight through our board presence on the operations of the partnership arrangements there for Caltex. As I say, that was a two-year assignment. Succeeding Jim Voss, John Holman was the...we called them vice-presidents in those days. John Holman had come in from an operation in France to take over in Japan and after two years in Japan was assigned to the New York office. Then an old China friend of both Jim's and myself came in from Thailand--Tommy Thomas--and he took over as vice-president for the shareholders' operation. He did that for two years.

After that, in 1964, I was made the vice-president but only for a few months as the title was changed to president of Caltex (Japan).

Marcello: So when we talk about Caltex in Japan, to me it looks like a very, very complex operation with all of those various companies.

Van Nostrand: It was, indeed. Caltex (Japan), itself, was a very simple structure, speaking corporately, because we were wholly-owned by Caltex, the prime company. Our function was what was so very complex. As Caltex Oil (Japan), we held no ownership in the joint venture companies in Japan at all. Those companies were affiliated companies of Caltex offshore entities as partners in the operation. Caltex (Japan) had a service contract with Caltex Petroleum Corporation to represent them in the operations in Japan--to chair the

various committees; to coordinate the functions of the joint ventures, in other words; and to act as officers and directors in the joint venture partnerships. That's what made it complicated, because the companies were offshore that had the true partnerships, and we had a contract with them to perform their functions in Japan.

But it worked out very well. The companies that we had partnerships with—Koa, Nippon, Tokyo Tanker—really had nothing in common with each other. We were the common denominator, Caltex (Japan). So we chaired the Pricing Committee; we chaired the Operations Committee to determine what the refinery runs would be; we chaired all the significant operations in order to coordinate these very large, unrelated operations. The joint ventures were in refining and transportation; and within that coordinated group, we would import the raw material, and we'd convert it to finished form. It would all be sold out of the joint venture refineries to Caltex Oil (Japan). Then we, in turn, sold to the marketing arm, which was the Nippon Oil Company, a company in which we had no equity and over which we had no authority whatsoever. But they were, in turn, our partner in refining. It was complicated.

Marcello: So in Japan itself, in Japan proper, Caltex never had any service station network or anything of that nature, did it?

Van Nostrand: Yes, we did. This, again, was something that took place in

the unsettled, early years. We moved into Japan with the full intention of being an integrated oil company--as Caltex. Once the operation of oil going to the civilian economy was taken away from SCAP, or was released by SCAP, to a commercial operation, we began to establish ourselves as a marketing company.

One of SCAP's provisions at that time was to follow the thinking of General MacArthur, that we must always exert influence on the regrowth of Japan in a way that would prevent it from ever becoming a strategic military power again. So among the many things that we were to supervise and to prevent happening was the reestablishment of a refining industry. It was his idea that all finished product would be brought in from abroad, and we would market it in Japan--Japanese and Americans and French, whoever. With that in mind, Caltex built some Caltex service stations, built a bulk depot (ocean port) to receive finished product.

I don't think the thing, in that concept, lasted more than a year before it became obvious there was no way, with the speed the Japanese economy was recovering, that you could ever service the civilian requirement for petroleum without having refineries in place. Of course, they had had a large refining complex that we had bombed out during the war. They had trained personnel, and they had the knowledge, and they had the sites. It was just a matter of rehabilitation for the

most part.

Once SCAP changed their directive and permitted the resumption of the refining industry, then we changed our concept. We went to partnerships with Japanese prewar companies. Together, we rehabilitated the plants with over-sight by Japanese and Caltex engineers and got the thing back on its feet in its present form. Those few service stations we had reverted to Japanese ownership by our marketing company.

Marcello: I would assume that service station sites in Japan had to be incredibly expensive.

Van Nostrand: They are now, of course. When you look back and think of the fact that Japan's gross national product five years after the surrender of Japan had grown back to its prewar level, this was a fantastic recovery. It was done by just terribly hard work on the part of the Japanese.

But they created this tremendous demand for petroleum. The petroleum economy just went crazy. I guess, from the time I got there in 1960, when our group refining capacity was about 68,000 barrels a day, to when I left, it was close to 900,000 barrels a day.

But Caltex, for the most part, to be quite honest, was riding the proverbial tiger. It was all we could do to exert maximum effort to keep up with what was going on in Japan-- to try to assemble the financial resources and the facilities

that were required just to hold our position in the marketplace. I don't think we ever sold anything (chuckle). We had contracts for crude oil supply that Jim Voss, together with our crude marketing people, in the late 1940s and early 1950s had put together. But as documents we put them away long ago, and operated within what the Japanese were fond of saying was the "spirit of the arrangement."

The "spirit of the arrangement" was calling for staggering input of finance, so much so that it attracted the immediate attention of our shareholders. We were progressing at a much more rapid rate than they were in a more conservative operating area here in the United States and in other European facilities. Everyone became very concerned about the amount of money that was going to be called for just to hold our position in the marketplace. Of course, the Japanese are not conservative. They are excellent planners. Once they make a plan, they mean to fulfill it, and they pull out all the stops in order to make very sure that it is fulfilled. This was the major problem in those days--our conservative outlook and our seeming greater experience in modern petroleum technology; and the Japanese's hard, cold, analytical studies that they were putting together of what the future was going to require. They couldn't anticipate, and neither could we, things like the Iranian crisis and the shortage of crude oil, and that eventually put the brakes on the whole thing. But

we were staring at budgets that were subjects of daily concern in the boardrooms of Texaco and Standard of California; and their executives were flying out all the time to view this thing at close range. Of course, it was very impressive.

Marcello: Let's back up and go to the very beginning of the Japanese operation. Some of my questions that I'm going to ask now, you can probably only answer through second-hand knowledge. At the end of World War II, I'm assuming that everybody's kind of starting from scratch in Japan. By everybody, I mean the major oil companies.

Van Nostrand: With the qualification that you had people like Shell in the operation, who had already perhaps a forty year history in the prewar period. We were the only essentially new operation in Japan. The others had had prewar experience. So this is the only qualification. They had to start from scratch, as we did, in building facilities and establishing dealerships after the war...well, they had a leg up on us because of their prewar operations.

Marcello: Let me ask another general question at this point. What is the key to Caltex's success in Japan? How does it get this market share?

Van Nostrand: It was very simple, and it is contained in the technique we employed when we went into Japan. Unlike Shell and Exxon and Mobil, who are our principal competitors, we decided-- and I don't know who--that the Japanese knew more about

selling oil in Japan than we did, and for that reason we would not operate in Japan the way we did all over the rest of the world, with subsidiary companies. We would instead have affiliates. We would take the role of refiner and transporter--things that we had good knowledge about and which essentially would fulfill the total Caltex mission at the time, which was to move crude oil--and we would establish that kind of operation. But the marketing would be left to the Japanese.

So we put together an arrangement with the oldest and largest marketing company in Japan, Nippon Oil Company. We acquired a tremendous market overnight. We didn't create it the way the other companies did. We bought it. And that's the principal reason for our success right there. It was that simple. Establishing the back-up operations to supply Nippon Oil Company accounted for the fact that we could direct our resources solely to that part of the operation. But the essential ingredient, I guess, in the success formula had to have been the fact that we chose our partners so well.

Marcello: Does Koa play a similar role, albeit perhaps a lesser one, relative to this wise selection of partners and so on?

Van Nostrand: I would say so, principally because Koa, all through the peak years of our operation in Japan, was the most efficient refining company in the country. They just had first class people.

We had a different relationship with Koa than we had with NPRC. In the case of Nippon, two entities--Nippon and Caltex--had formed a 50-50 venture, a new venture.

Marcello: And this is Nippon Petroleum Refining Company.

Van Nostrand: That's right. In the case of Koa, we bought into an existing oldline oil company which had in the immediate postwar years a great desire for and interest in becoming an integrated operation. They didn't want to be just a refiner. This was part of the struggle with them through the years. The other thing was that by having bought into an existing company, the man on the street owned 50 percent of Koa, and he was Japanese. The other half was owned by Caltex. So we always had to be in this case very sensitive to the operation of the company with respect to those local shareholders. In the case of Nippon Petroleum Refining Company, all we had to do was to have an understanding with Nippon Oil, and it was a simpler arrangement to administer.

But Koa fitted into the operation very well because, as I say, they were such an efficient company, and they could be used as a benchmark operation for us to evaluate how well or how poorly we were doing in NPRC. It was an easier thing than to evaluate with the competition, where the information is protected and not as easy to come by. So it played a very important part, especially in the growth years.

The other advantage it brought to the arrangement was that during the first few years of operations, the life blood of a petroleum refining company in Japan was its allocation of foreign exchange to buy crude oil. Because Koa had a prewar existence, it had an allocation assigned to it that couldn't be transferred anywhere. So it provided to the group more crude oil than we would have been able to get foreign exchange to cover, and this was really valuable.

Marcello: So Nippon Oil was really not a refining operation up until the time that you worked for them.

Van Nostrand: Yes, Nippon did have refineries. The Yokohama refinery was owned by Nippon, and they had taken over an old refining company called Ogura Oil. Ogura Oil had refineries, and this is how Nippon acquired a large part of its refining capacity in the prewar years. They had really started out in northwest Honshu as an oil-producing company. They had some production up there. In 1888 this is how Nippon came into being. But a large part of the prewar refining operation came from the acquisition of Ogura. Then, of course, everything was bombed out during the war. In the rehabilitation phase they were with us, and we were the ones that put together the refining plant that serviced them. They did have two small refineries that they operated separate from NPRC, as Nippon Oil Company, all the time I was there,

but these have been phased out.

Marcello: So essentially, then, you have Caltex and Koa and Nippon Oil, and then all the other organizations are more or less spin-offs with either or both of those companies.

Van Nostrand: Right.

Marcello: For instance the...

Van Nostrand: Tokyo Tanker.

Marcello: Exactly.

Van Nostrand: Nippon Petroleum Refining Company owned 48 percent, Koa owned 16 2/3 percent, and Nippon Oil owned 4 percent. These were not frivolous assignments, and they weren't based on corporate reasons. The proportion of ownership in the tanker company was first determined by the proportions of need for crude oil for the operation of the group in Japan. In other words, 16 percent of the crude coming in was supposed to go to Koa, and 48 percent was to go to Nippon Petroleum Refining Company, and 4 percent was to go for the refineries of Nippon Oil. So that's how those arrangements came about. Then later the Kagoshima oil storage facility was supposed to have that same pattern, but at that time Caltex was dragging its feet administratively and not sure that we should be involved to the extent our indirect ownership would be. So finally, Nippon at one famous meeting informed me, "It is obvious that Caltex doesn't have a great interest in the facility. We need it, we want it, and we can see

merit to the group having it. So if you don't want to be involved, we'll build it." At that point, Caltex said, "We do want to be involved, but only in half of it. You take half, and then we'll split the other half between NPRC and Koa."

Marcello: I want to come back and talk about this later because it's obviously a very, very important part of the history of Caltex. But let's go back to the beginning once more, when you start working out these arrangements with Nippon Oil and Koa. Other than the crude, what does Caltex bring to the arrangement? Would it be financing and technical know-how?

Van Nostrand: All three. I guess you could say that at the inception of the partnership arrangements, they might have had almost equal value. We had access to money for expansion at much more reasonable interest rates than the Japanese could get.

Marcello: This is U.S. credit, is this correct?

Van Nostrand: Yes. What we were doing in Caltex was essentially borrowing on their behalf and then lending these borrowings to the Japanese joint ventures for the construction of facilities. I think that in some cases there were direct pass-throughs of costs to Caltex, particularly in later days. I'm sure that in the early phase we made money on our money as well as on our crude oil operation in Japan. But it was a very favorable operation for the Japanese, I think. They saved many percentage points on

what the cost of the facility would have been.

Marcello: In the beginning, relative to these relationships, Caltex does have some things going for it. You have the crude, you have the technical know-how, and you have the financial clout. I'm sure that during your career in Japan you must have seen this kind of a relationship evolving. You see a maturation, I guess, of Nippon and Koa.

Van Nostrand: Oh, yes. The early construction of the refineries--both the rehabilitation process and the new grass-roots refineries--were supervised to a great extent by Caltex engineers, who lived right on the site and worked with the Japanese engineers. But we learned very early in the game that they knew what it was all about. I think the main reason why in the early days--on the technical side--we operated so successfully was that the Japanese were most interested in employing the improvements and refining technology that had taken place during the war and that they were separated from and knew nothing about. They wanted to use them; they wanted to incorporate them in these new plants. The best way to do it was to have Caltex engineers determine what processes would be valuable, and then to arrange royalty agreements with the companies in the United States.

Marcello: Earlier in the interview, you mentioned something that Mr. Voss had previously mentioned in the interviews that we did with him. The "name of the game"--and that was his

term--in that early stage was moving crude.

Van Nostrand: Oh, yes.

Marcello: Explain what is meant by that. Why was that the "name of the game?"

Van Nostrand: Well, it coincided with the knowledge in our parent companies that the Middle East reserves were gigantic, and at that time, of course, Texaco and Socal owned those reserves. It was only later, when the pipeline was built, that they brought in Exxon and Mobil. So they had to scheme ways and means of disposing of these tremendous amounts of crude.

Marcello: That they were getting very, very cheaply.

Van Nostrand: That they were getting very cheaply from an operational standpoint, yes. There was a great deal of difference in the operating costs of drilling and producing oil in Saudi Arabia than in Texas or Louisiana or Pennsylvania--a great deal of difference. But the important thing was that the U.S. domestic market was in pretty good balance in those days with domestic crude oil, so this was one show and overseas was another one. So their strategy was to build refineries in those economies that could support them and absorb large volumes of crude oil. Japan, as the second largest crude-consuming country in the world, became a very popular operation with the crude salesmen (chuckle).

Marcello: Relative to those very early operations in Japan, there's a Japanese national whose name has surfaced on more than one

occasion in these interviews, and I'm referring to Shun Nomura. What can you tell me about Shun Nomura? Give me, first of all, a character sketch of Shun Nomura, and then we'll talk about his role in the Caltex operation.

Van Nostrand: Well, my character sketch would be one of a thoroughly delightful personality. Whether he were Japanese, German, or American, it would be immaterial. This was a man who had lived in America for many years (lived and worked here), who had that experience behind him, who had operated in the oil business, both in the producing end and at the crude sales end, for many years. He was a very fit--mentally and physically speaking--person, even up until the very day that he died at the age of seventy-four. He had what I would describe as an American-type sense of humor--puckish-type of humor that made him delightful to be with.

But he was thoroughly Japanese. He was married to a member of the Matsukata family, the old, really noble, family of Japan. Mrs. Reischauer is a Matsukata, too. She comes from the same family and has recently written a book about the Matsukata family.

Shun had lived a very interesting life; he was fascinating to me. When I was marketing manager the first two years in Japan, Shun's office was about ten doors down the hallway from mine. Shun would come in, Japanese-style, to the office and take off his shoes and put on slippers. I think

it must have been three or four months after he died before I stopped thinking that I heard that "slop, slop, slop" of his slippers coming to my door.

He was a very special person, and he was most important to Caltex because he had an even-handed approach to the conduct of the business. He helped put together, really, the operation. As a former Mitsubishi man, he had put together the partnership with Tidewater Oil (Getty Oil) and Mitsubishi that was very successful for many years. Then when we came along, he was instrumental in advising us about the suitability of Koa and NOC. He had their confidence, and he had our confidence.

I must say (chuckle) that I think the role of my predecessors was easier than mine in times of crisis for the simple reason that if you could send off a cable saying, "This is what it boils down to, and this is my recommendation, and Nomura concurs," New York paid attention. You received the kind of decision and answer that you needed, because he was so highly thought of by our people.

I would consider that Shun was typical in another respect in that he was a man of great integrity. He was un-Japanese in his lack of interest in detail; he was a broad-brush man, a big picture man. Therefore, contracts didn't mean too much to him. But the spirit of the contract is something that Shun and all the rest of the Japanese

top executives that we had in our partnership arrangement cherished. That was another thing. I felt we were very-- fortunate in the original selection of those people because they developed a type of man in their organization who, when he became chief executive, you as an American working with him could trust. Again, you did business on the basis of what you both knew the business should be. It was a partnership, and never mind what the contract says. In case of a dispute, you reminded each other of what it said, but the thought of using it as a legal enforcement in any time of crises or any time of disharmony was never even thought of.

There are a couple of interesting sidelights on Shun that I guess should be preserved because his family are very quiet, unassuming people who don't try to promote the legend. I guess Jim and I are the only ones who have a great interest in that. Shun's prewar days were interesting in that when the Yankees went to Japan--you'll be interested in this, Ron, as a baseball fan--they had the big team with Gehrig and Ruth. It was their most famous team. I forget which year it was, but they all went to Japan and played in a series. Shun was one of the sponsors, so he spent a great deal of time with the team, particularly on the social side. He took them to geisha houses. I wish he had written a book-- I really do--on the anecdotes that he could tell about Babe

Ruth. A lot of those Yankees were hard-living gentlemen. Shun's stories were just delightful. He had all these mementos. They left him their caps, and they left him baseballs with the famous autographs, and they wrote letters of thanks to him when they got back to the United States. There's a famous restaurant in San Francisco--Lefty O'Doul's--and he idolized Shun because...I guess Lefty came with the team in those years in a management position or something, and he remembered. Whenever Shun went to San Francisco, Lefty's was one place he had to go and have a drink and talk over the old times.

There's one thing that burst an illusion for me, growing up in the period I did. I always read about and heard about the Hollywood legend of Douglas Fairbanks, Sr. and Mary Pickford, you know, the great, wonderful marriage of the time. Shun has a scrapbook--snapshot scrapbook--that, besides having all the Yankee pictures, has a couple of pages devoted to trips that used to occur when things would blow up at PickFair. Douglas Fairbanks would storm out of the house--out of this relationship--get on a tramp steamer, go to Japan, pick up Shun, and then they'd go all around Southeast Asia on the tramp steamer, playing golf. Douglas Fairbanks, Sr. was a great golfer. He and Shun--just the two of them--would play golf, and this was the way he worked off steam. Eventually, he would go back to Hollywood. Shun had some tremendous

pictures of Douglas Fairbanks, Sr. in these various locales. Among others is the two of them standing on the fantail of a tramp steamer en route somewhere, hitting golf balls out over the stern, both of them buckass naked. That is a collector's item. Shun's daughter has those now. I'd give anything to get hold of those pictures. So he wasn't just attractive to Caltex people. He had a lot of other friends.

Marcello: Are people like Shun Nomura essential for a company that's doing so much of its business overseas, as is the case of Caltex?

Van Nostrand: I would think so.

Marcello: I'm sure there must be people like Shun in other countries where Caltex operates.

Van Nostrand: There were, but not as uniquely perfect for the assignment as he was. I keep referring to his even-handedness. In the case of problems in the early days...you know, we were still feeling each other out. We didn't know each other, and that's why he was indispensable. Later on, about the time I arrived, there was a management feeling in Nippon at top level that "we just aren't going to find new Nomuras. It's impossible, and we can't train one. So we must learn to deal with each other on a more direct basis, to understand each other better." This particular chairman, Mr. Kamimura, and his wife then began directing their fellow executives and their ladies to look forward to a closer social relationship

with the Caltex people. The ladies were to start taking English lessons, because they knew the Americans couldn't speak Japanese, and they should learn to play bridge. In the old days, all social activity was stag, principally the tea house, the geisha house, and that sort of thing.

At this juncture, at this great turn-around, Caltex was among the pioneer companies where, when we would have a very large celebration of some sort, it would include wives. I can remember when Phil LeFevre, the pioneer that established this whole thing when he came over from China and began the Japan show, came back after his retirement with his wife, Nell, to visit us in Japan. I think they stayed as a matter of fact, in our house. Of course, the Japanese threw quite a few big celebratory events for them--parties and that sort of thing. At that time, Phil and Nell met for the first time the wives of their old Japanese friends--the first time--because in the old days, the wives weren't involved.

But now they've got the bridge club going, and they've got...we would go off as couples on these long trips to dedicate new refineries or, naturally, to launch the new ships. From that point on, the Kamimura influence was such that it carries on today. Now they do things together. It was years before the other companies began to do it that way, and they did it because they saw what was going on with us.

Marcello: While we're on this subject, let me ask this question. How important was a wife for an executive in Caltex? Does the wife play a role...I'm not asking this question very well. What is the importance of having a wife on an assignment like Japan or Thailand or Korea or wherever it might be?

Van Nostrand: In the days I was in Japan, I would say it was essential to have the kind of wives we did have there at that time in Caltex because the augmentation of the business was very much social and you spent a great deal of time travelling together on airplanes, buses, and trains. You spent a great deal of time in each other's company. The ladies really helped a great deal on the relationship side--a very great deal.

The other thing most people aren't aware of is this docile Japanese lady who walks three or four paces behind her husband down the street is a figment of somebody's imagination. This is the way they behaved themselves. They don't talk in their husband's presence, and there are many other things that make them appear to be the most subservient, perhaps perfect, wives in the world. But, let me tell you, they run the household. They are very strong influences on their husbands, and there's no doubt about it, particularly in modern day Japan. So if they, for example, are in harmony with the distaff side of the Caltex operation or the Shell operation or whatever, it has a definite and

direct impact on the relationships between the men. It worked the other way, too.

As I say, we had very good experiences. In my estimation, they played a very important role. One of the Social vice-presidents in early years--he was a Caltex director--was a man by the name of Ted Lenzen, and Geneva Lenzen always used to come to Japan and cause problems by saying, "Why aren't the Caltex wives on the payroll?" (chuckle)

Marcello: I have another question that's kind of related to what we're talking about at this point. Of what advantage is it to have some knowledge of the language of the host country?

Van Nostrand: I would think it's a tremendous advantage, definitely. We only operated successfully without it because we had bridges like Shun and, currently, Sam Iwamoto, and let's say important foot bridges--not main structures--like Hank Yamada, who is an interpreter for the Nippon Oil Company side. The problem is, and always has been, that Japanese is such a difficult language. I'm not exaggerating when I say it's difficult for one Japanese to communicate with another. It's an unwieldy, difficult language, together with very, very sensitive innuendo. It's awfully difficult, even if you speak the language perfectly, to absorb or to project the nuances that are necessary. It is very complicated. So I never considered that we could successfully embark on a Japanese language program. In Chinese we did very well.

We had a language program in Peking, and all the young marketing assistants coming to China for the first time went up there and spent some time. I think Ray Johnson was... oh, he was Berlitz. He studied Chinese. Now he has a chance to use it. In many of the countries where we operate, it has been essential that they have a working knowledge of the language.

But in Japan, after twenty-five years, I only acquired enough so that I could travel independently. I could get around the country and communicate enough so that I could get the right train, plane, and destination and out in the country make myself known so that at least I could eat and survive. I'm a great skier, and I used to like to go out by myself on ski trips when I could get a free weekend to sort of unwind. So I picked up a lot of working knowledge of Japanese, and particularly the ability to read signs and guideposts--that sort of thing. But it is a very, very minor ability, where the language is concerned.

Marcello: Previously in the interview, we were talking about the joint ventures with either Nippon or Koa and so on. How did the policy of buying in for no more than 50 percent evolve? Why 50 percent or less? Do you know what the background is on that?

Van Nostrand: The first thing I did when I was assigned to Japan was to go back in the vault and take out these huge aluminum footlockers

in which our records were stored. I took box numbers one through five, and I set them up in my office. I read every single file going back to those days. Now I don't retain a lot of knowledge, but I know what you're talking about. I don't retain a lot of accurate knowledge, but I do know that our objective on the part of the New York policymakers was 51 percent--most definitely. We worked long and hard to try to convince not our associates, who were willing to grant that, but the Japanese government and people like the Foreign Exchange Control Board and...I forget what the agency was that was in charge of foreign companies, but they were most insistent that we be a minority partner. I think, after a long, hard effort, we finally compromised in that the equity would fall half-and-half in partnerships. But we would have always a balanced board, and we would have by-laws and articles of association that would clearly define where we went in the case of dispute, legally speaking. And we would always consider that, even though Caltex would permit the chief executive officer to be from the Japanese side--the Nippon and Koa side--they would not have the authority to overrule, as in most similar arrangements. So what we really did was to retain not the control that 51 percent would have granted us or would have implied, but we at least maintained a balance that made sure that, even though we were on their turf, our rights and our opinions and

our policies would be protected and observed.

Marcello: How did this work out?

Van Nostrand: Fine. I don't know of any instance during the time I was there where any dispute ever came to the point of people reciting the contracts clause for clause or saying that "this was something that should go to arbitration," if that's what the article called for, or that "this is a situation that should go to legal definition." Again, part of it is because we are more preoccupied with the importance of the written word than the Japanese ever have been. At the time I was there, they only had eight hundred lawyers in the country, and they weren't fully employed (chuckle) because the Japanese personality, born of his culture, with 125 million people living on a little bitty island, calls for compromise rather than confrontation as a means of daily life and daily satisfaction of problems. So the Japanese is the master compromiser.

Marcello: Describe the relationship that developed between Caltex and MITI.

Van Nostrand: In the early years, it was direct in that Caltex was entering the petroleum economy on a direct basis--I mentioned the service stations and bulk terminals--and the Caltex people tramped the government offices as we do here in order to achieve some sort of relationship with the government so that they would know who we were and what we were doing. Later,

after Shun's death, when we had to reorganize the way we operated...Shun was always the great friend of the prime minister and MITI minister, and things could be presented without Caltex having to make a direct approach, or we could get some guidance as to how to make a direct approach. This was a great and important part of Shun's function.

After we no longer had that facility, we attempted to bridge the gap between Caltex as an organization and the government in Japan by employing a very famous former diplomat, Shunichi Kadowaki. Mr. Kadowaki had worked with Caltex in the early days when Jim Voss was shepherding our contracts through government offices. Kadowaki-san was brought to Caltex by Shun. He had been chargé in the Russian embassy, and he had had a couple of other jobs working in the diplomatic corps. But now he was on the list of people, which included all diplomats, all military, that had to be purged by SCAP before they could resume their traditional operations. While he was waiting--of course, he had no income or means of support--Shun brought him in and said, "Look, he knows the government offices; he can help a great deal. He'll save you a lot of time by going along with you and indicating where you get this decision made and where you get that decision made." He did. He and a Nippon Oil Company attorney and Jim were the three people who really shepherded those documents around and got them finalized by the government.

So he went back to then become ambassador to Russia and ambassador to Iran. His final post, when he reached retirement age, was Rome; he was ambassador to Italy. Jim contacted him, knowing of his age and the necessity for retirement-- contacted him in Italy--and said, "We would like you to come back as a government relations consultant to Steve." This was to fill the gap left by Shun's passing. Kadowaki-san said, "Mr. Voss, I'm sorry but just last week Mr. Ohtani, who is a heavy industries magnate in Japan, came to me and said that he was interested in building a very large hotel to service the 1964 Olympic Games, and he is in great need of a president for the hotel." He needed a name. Because Mitsubishi was going to be involved, he needed somebody that would have their confidence. They weren't going to help him with financing, and they weren't going to permit him to go ahead with this project unless he found somebody like that. This was not a very nice man--that's the best way to put it. He had come up the hard way. Kadowaki said, "So I agreed to build and operate the hotel. I can't do it."

Jim telephoned me in Tokyo. He said, "He'll be back next week, and you call him up, and you invite him to lunch, and you get some martinis into him, and you tell him that we need him. We know he's going to be busy, so how about on a space-available basis? Anyway, we won't tie up his time, and we won't interfere. But once he gets this hotel project going,

it will run itself, and he will have time." So we had the famous lunch, and Kadowaki-san agreed.

We made him a director in Shun's place. We had held Shun's positions in Nippon Petroleum Refining Company and Koa and Caltex (Japan) all open, and we made him a director in all those things. Then he was the man I went to for advice on government.

Where MITI was concerned, we decided, after Shun's death, that MITI was primarily concerned with the market place. They organized it; they really controlled it. They determined how much oil you could import, how much oil you could manufacture, and how much you could sell. They determined how many service stations you could have. All of these things were under the administrative guidance of MITI. Inasmuch as we were not at market level--the only marketing we did was on our books, when we bought the refineries and resold it to Nippon Oil--we thought that Nippon Oil should have the first person confrontation with MITI and should be in charge of the group's relations where MITI was concerned. On the refining side, Koa had its own avenues, as did NPRC. But we decided it should be a Japanese thing.

I would go around every year and have a cup of tea in the traditional way with the MITI minister and give him New Year's greetings and let him know how happy we were with the administrative guidance we were being provided. And that

was it. In times of great crisis, like the Iranian crisis, when they were afraid there weren't going to be sources of enough crude oil for the Japan refining complexes, I would be called in by the MITI minister, and I would have to provide either my assurances or my opinion on where Caltex stood and where the international industry stood and what the prospects were so that they could do their planning. At other times, there might be a conflict between the government's policy toward the refining company and the wording in a Caltex contract, which, as I say, the partners didn't pay any attention to but the government did. I would have to go in and try to affect some sort of compromise in the conflict there. Those were the only occasions.

We did not conduct Caltex business directly with MITI. The other companies--Exxon, Mobil, Shell--were operating at market level, directly at market level, and they did have an unenviable position of having to negotiate conflicts with MITI. So we were in very fortunate circumstances there, I always felt.

Marcello: You say the "unenviable position" of having to deal with MITI? What do you mean by that?

Van Nostrand: Well, MITI emerged from the war as a somewhat ineffective government agency, which, as industry gained volume and importance, became much more of a vital segment of the Japanese government. It became a very important agency.

You see, the Japanese government, even to this day, is very paternalistic toward industry. It's borne out of seventeenth century history, when the Japanese government owned all the industry in Japan. When the pre-Meiji war was ended and the Samurai were being disbanded, Japan had to find some way of feeding these fellows because they were roaming the countryside and were a real menace. They only knew war. So the government began allocating to the Samurai, in token appreciation for their long service, the right to conduct business. The government, up until that time, had always conducted it. The great companies of today had that origin. Iwasaki was the Samurai that began the great Mitsubishi company, and so on and so forth. Because the government had once done all this, they never felt that these soldiers understood how to run companies. So they were always very paternalistic; they watched over everything that was being done and still do.

But MITI never had the force and the power that they have today until the sixties, when everything had to be licensed by MITI. If you wanted to build a refinery, you had to have their permission. It was tough to come by because with their new power there was a recognition that 70 percent of the industry was affiliated with or in partnership with foreign companies. Almost 90 percent of the crude oil in those days was coming from non-Japanese owners. So

the mission in MITI was to bring this down to a reasonable level: "We must be independent to the extent that we can have some assurance that in times of international political strife we can continue to operate. We can't have outside people controlling our lifeblood, our petroleum. This is 70 percent of our total energy."

They did this without being sneaky about it. They just proclaimed that henceforth they were going to exercise their office in a way that would result in 50 percent of the crude rights to any Japanese operation be what they call free-hand crude, that the management of that company be free to buy that from anyone they chose, regardless of present contractual operations. Of course, this was all right where Caltex was concerned from the legal standpoint because we'd maintain in our contracts that it was our job to lay down this crude, to sell it to the Japanese partnerships in the quantities they required at competitive prices. So our argument with the government was that all the government had to do was to provide crude at a cheaper price, and they could do that in the so-called yen crude. We would, as a matter of contractual obligation, have to defer to that source, down to 50 percent. So we didn't have as much argument as some of the people who had exclusive contracts of total supply--no ifs, ands, or buts. Ours was a less oppressive thing.

However, they don't instruct you; they don't direct you.

MITI would say, "Well, we're looking at your expansion project for second-stage Negishi--another 110,000 barrels a day crude oil capacity. Now according to our reading of your contracts, there's no way that Nippon Petroleum Refining Company, which is a Japanese organization, can buy 50 percent of it from anybody they choose. As far as we're concerned, you've got 50 percent ownership in that company, and we think that that equates to your rights to supply that company. So if you want that expansion, you must remember that we're going to be looking at other competing companies. We have a total of 400,000 to 500,000 barrels a day of new capacity to award at this particular time. We have applications for two-and-a-half million barrels. So we've got to decide which are the best companies to allocate it to." Well, the message is clear. You've got to come with your application with some sort of an indication, regardless of your contracts, that you're going to play along with MITI.

After one of these bad interviews with MITI, I went back and talked to Nippon and Koa, and they said, "Don't worry about it. You write us a letter citing the basic contract and saying that if, as the contract says, you can find more competitive sources, we won't insist on our right to supply up to 50 percent of the new increment of expansion for that refinery. You can go ahead and amend, with this formal letter, our basic contract. We then will turn around

and write you a letter saying, 'Ignore that damned thing. I, as president of NPRC, will assure that we are going to buy our crude under those contracts we have with you, regardless of what MITI says.' They put it just that way, and I've still got copies of those letters. They said, "Now take your letter to us, and attach that to the application." So we got our expansion. We did the same thing with Koa. They were going to build the Osaka refinery--80,000 barrels a day--and we weren't going to get MITI's permission to do it, but we did.

Administrative guidance. This was the way MITI operated, and it's as effective as if they'd said to us, "Under no circumstances are we to grant you your new increment of expansion unless and until you agree that you will release 50 percent of the crude rights." I was glad I didn't have to negotiate on a daily basis, for they were merciless. I think we would be equally aroused in this country if the position was reversed. Look at what we're doing now. We are in this position, aren't we? We're at the point where our government's going to take action because they're so terribly concerned with our trade imbalance.

Marcello: In 1967--I'm sure you'd have been on top of this one--the Nippon Oil Staging Terminal Company was formed. Give me the background on that. How did that come about?

Van Nostrand: I already have, in essence. When Nippon Oil Staging Company

was conceived--when the plans were drawn for the facility and the payouts and the justification came to the committees in Japan that were responsible for this sort of thing--we, of course, sent it off to New York. The original plan called for the ownership to be in the same percentages and pattern as the Tokyo Tanker Company, again because this was roughly the requirement of crude; and it seemed the logical way of going about it. The amount of money involved in the facility and the fact that this was to be the biggest in the world stopped anything coming out of California or New York to us. Nobody wanted to write the cable saying, "Okay, it's all right. Let's go ahead," because there was just so much involved. So it went on and on and went on, up until the point, as I mentioned earlier, when Nippon said to us, "It's obvious Caltex doesn't want to be concerned in this, so we will build it. But we want to let you know that that's what we plan to do." Then, of course, I got on an airplane to New York. The upshot of the thing was that we made a slight change that might make it more palatable to the owners of Caltex, and went ahead on the basis of Nippon owning 50 percent of it, and then the remaining half resulting in an indirect 25 percent ownership by Caltex would be picked up by Koa and NPRC.

Marcello: When you went back to New York, with whom were you talking there?

Van Nostrand: I was talking with our own board, which has two Texaco directors and two Socal directors. Whenever I went back to New York, that's what I went back for (chuckle)--to talk to the board.

Marcello: Who seemed to be dragging their feet most on the formation of Nippon Oil Staging Terminal Company--Standard of California or Texaco?

Van Nostrand: That was always very well protected information. In any meeting--in any meeting--I ever had, people were always very careful to present a unified front (properly so). Now what the grapevine had was a different thing altogether. You'd pick up a lot of information that way. It wasn't one partner or the other who consistently opposed us. It's interesting that this is one of the great problems in Caltex--it always has been and, I think, always will be--that we are owned by two companies who are fiercely competitive, each against the other, regardless of what you hear from people who've made superficial studies of this subject. They are fiercely competitive, and they don't like each other--that's another thing--which is proper for competitors, I guess. But the point is, you have two completely different marketing philosophies, refining ideas and processes. I guess you couldn't find two companies in the United States that would be more unlike each other than these two. When you try to resolve a problem with the two houses represented, it becomes very, very difficult, and that's why I say that at one time what

we would be doing in Japan would be in direct conflict with the policies and procedures of one of the companies. And the next time it would be the other. So it went back and forth, where you had times when you felt they were reluctant to make a decision. Things were moving on in Japan, and our partners were getting more and more upset with us, the way we were dragging our feet. As I say, it wasn't just one or the other that as a regular thing did this. It was all because of their basic philosophy about how the business should be run. They both felt that their ideas were right, and so it made it difficult.

Marcello: Getting back to Nippon Oil Staging Terminal Company again, what was the rationale for building that huge facility? Why was it needed?

Van Nostrand: We were moving, or intended to be moving, in a very brief period of time close to a million barrels of crude a day to service the refineries in Japan. It was forecast that every two years we would require another 100,000-barrel-a-day refinery and another 100,000-ton tanker. Now the seven refineries were scattered around in traditional sites.

Marcello: By this time, all those refineries had been built.

Van Nostrand: Yes, or were in a phase of their construction.

Marcello: I guess during this period they were always in a phase of construction.

Van Nostrand: Yes, because we bought sites for the grass-roots refineries

that would permit this expansion, rather than having to buy new sites everytime we decided to expand. All the land for refineries was reclaimed land. It had to be created. This was a prefectural government responsibility, so you could never be sure that when you required the plant that you were going to have the land to build it on. It became very necessary to try to get a site under your control or under your ownership that you could expand into.

The answer to your original question is quite simple. Some of the old refineries were located in shallow-water ports. They all had to receive tankers. Some of them couldn't receive anything bigger than an old T-2 tanker--wartime vintage, 17,000 tons. And let's say that the largest vessel that could be accommodated at any refinery was about 150,000 tons. This made it necessary to try to avoid the high cost of loading in the Persian Gulf a 17,000-ton tanker and plying it all the way to northern Hokkaido to a refinery up there. The freight costs were enormous. So the concept of carrying our crude in very large, ultra-sized tankers of 200,000 tons or above and depositing that crude at a deep-water port in southern Japan--Kagoshima--and then using the smaller ships for the very short range or bridging trip, as we called it, resulted in tremendous economies in freight. That was very important because freight was a dollar cost. Therefore, that was the reason for the evolution of the crude

oil storage terminal company and the ultimate place in the fleet of three 470,000-tonners that made eight voyages a year to the Persian Gulf. They were kept in constant shuttle on that operation and resulted in our crude costs being very competitive.

Marcello: I think you touched on this somewhat, but let's go into it in a little bit more detail. You mentioned earlier the formation of the Tokyo Tanker Company, another one of the joint ventures. What do you recall about the jumbo-izing of the old T-2 tankers? You mentioned T-2s awhile ago.

Van Nostrand: When the need for tanker capacity began to peak out, Japan was building over 50 percent of the new ships in the world, and it resulted in a lack of shipbuilding space in these gigantic yards. But there were still a lot of repair yards around in the country that could be used, without interfering with the new building program, to upgrade the capability and therefore the economy of these ships that were still afloat and still in good operating condition by simply cutting off the bow and the stern and putting in a new center section that would double their capacity. The economies are obvious. That's what led to the jumbo-izing.

Marcello: And then from there you go to the construction of the supertankers.

Van Nostrand: Well, that was going on simultaneously, but this was a way of keeping up with the demand without waiting. It only took

nine months to build a 400,000-tonner. That's incredible, but that's what they were doing. Still, everybody wanted those berths, and everybody was programmed...well, that would be an interesting document for you to see, but I don't have one here--the shipyard schedules. Anyway, this was the way of getting the capacity in a different form (the capability) without interfering with the progress of building the new ships.

Marcello: I was looking over my notes, and it's interesting to see just how the delivery of crude and products continued to increase every year--dramatically increase at the time. Were you prepared for this sort of thing?

Van Nostrand: As I recall, yes, we were. In the days before the political upheavals, like, after the second Suez crisis had stabilized and before Iran, we went through a very exciting and tremendous growth, but it was all well forecast. Our programs and budgets all related to that in a pretty efficient way, I thought. So I guess the answer to your question is that, sure, there were disruptions, but for the most part we were never incapable of satisfying the requirement in Japan, particularly in the Japanese market. Through all of the various political problems where crude was either cut off completely or the volumes were affected adversely, there was never the occasion in Japan to ever have rationing of oil.

Marcello: Do you recall what the peak year was for the importation

of oil while you were there?

Van Nostrand: I would say it would have been in 1972 or 1973.

Marcello: And what are we talking about--900,000 barrels?

Van Nostrand: Well, here's the chart, for example, made up in 1969, which shows that we were forecasting 765,000 barrels a day for the Caltex group in 1973.

Marcello: When you start reaching those levels, where were you getting the oil?

Van Nostrand: At that time, principally it came from the Middle East, and also at that time we began to import substantial quantities of Indonesian crude.

Marcello: But the bulk of it was still coming from the Middle East?

Van Nostrand: Oh, yes. It was mostly Arabian crude, with some Iranian.

Marcello: Let's talk, then, how OPEC and the Arab oil embargoes affected the relationship between Caltex and its customers. I guess we need to go back to 1973.

Van Nostrand: Well, there were, of course, in the minds of our Japanese associates and in the minds of their government, MITI, great misgivings about our willingness--foreign oil suppliers in general--and our ability or even our interest in pooling what oil remained after the embargo and allocating it to the world-wide operations on a balanced, even-handed basis. They felt that there were places other than Japan that would receive priority, when a joint venture refinery's requirements, were compared to a wholly-owned facility of Texaco, Socal, or

Caltex, the priority was implied there. I mentioned being called in by the MITI minister, who in those days was Mr. Nakasone, the present prime minister: "What are you fellows going to do about this? Are you going to provide us with our requirements?" Of course, all I could tell him was that we hadn't deferred any cargoes earmarked for Japan at that time. I had no instructions as to what might occur, but certainly we could not import at the same level that we had in previous years because we weren't going to be able to satisfy anybody to the extent of previous years. Everyplace in the Caltex spectrum had an inventory position, and in Japan it was a good inventory position. That would be weighed against the requirement, as it would in every facility, without regard to ownership. I had been told that that would be our policy.

I think, to a reasonable extent, we worked it out. It took, on a detailed basis, some infighting, some attempts to shift cargoes and to re-deploy them to places that were alleged to be in greater need than we were.

I remember after it was all over. You know, you operated on cargo-by-cargo daily basis--a very detailed operation--in order to keep on top of it. But I recall that after it was all over, I made a study that indicated that we had supplied our partner with 4 percent more crude during the time of the embargo than their previous year's estimate of requirements placed on us had indicated they would want.

So instead of cutting them back against their requirements officially placed on us, we were 4 percent in the positive position. I have to point out, of course, that with the big ships, if you slipped one in the program (chuckle), it made a big difference in the percentage of plus or minus. But we did very well. It was very much appreciated, both by government--we made damned sure that they understood what we had done--and by our associates that they had gotten very fair treatment in this moment of crisis.

Marcello: How were you able to do that? How did it come about?

Van Nostrand: Well, your programs are established, you know, almost by vessel a long time in advance. And when you're notified, as we would be, that that ship had slipped, was not going to be loaded, then you had to fight to get a replacement. As I say, the supply and distribution people were going up the wall in California and New York, but that was the way it was done. I think that there was an intent on the part of the Caltex shareholders, and certainly of Caltex, to try to keep things going despite the embargo.

Marcello: I think this would have been especially true in the case of Japan, would it not, since it was so important to the overall operation?

Van Nostrand: Well, it was. They knew that there would be residual ramifications once this had all settled into place, as they expected it would. But it was terribly political, as you

understand, beyond the question of requirements or intent on the part of our shareholders. There was the South African thing going on; there was also Iran's almost arbitrary designation of who were the friendly countries and who were not. At one time, we could not ship any Iranian oil to Japan--for a brief period--because Japan was considered to be on the unfriendly list. If any company was found violating that list, they would lose their total supply. So it was something very scrupulously observed. But that didn't last long. Apparently the Japanese negotiators or a little more knowledge in Iran resulted in them being placed on the friendly list, so we were able to resume. But for a while, it looked as though that was going to be dried up. And we were bringing in about 300,000 barrels a day of Iranian crude, so it was serious to us.

Marcello: You've clarified something that I was wondering about awhile ago when I asked where you were getting your crude at that time. You mentioned the Middle East, and I'm assuming you were including Iran...

Van Nostrand: Iran, Saudi Arabia...

Marcello: Bahrain becomes less important by this time, does it not?

Van Nostrand: Well, we were not importing any crude from Bahrain. They only were producing about 75,000 barrels a day, and I think it was all being run in the Bahrain refinery. Now we were importing about _____ barrels a day of finished product,

and that was mostly heavy fuel oil, diesel oil, LPG; and that was coming from Saudi Arabia and some from Iran.

Marcello: That's something else I was going to ask you awhile ago, too, and it slipped my mind. There was some finished product being imported to Japan.

Van Nostrand: Yes, about 120,000 barrels a day--quite a bit as the total product imports were 500,000-600,000.

Marcello: We haven't talked very much about refinery building at this stage, and I don't think it's necessary to do a blow-by-blow account of every refinery that was built, but let's just pull one out. Let's take Muroran in 1971. I believe that's when the decision was made.

Van Nostrand: No, that's an expansion. The grass-roots refinery was built during Jim Voss's tenure.

Marcello: How do you determine where to build a refinery?

Van Nostrand: Well, you have a market. In the case of an established country like Japan, you've been satisfying that market, one way or another, for many years. As the market grows, the economics of the method of supply change. What may have been very practical in the way of supply method--at a certain number of barrels a day by small tankships loaded with finished products in the Tokyo area and transported to Hokkaido--may become very uneconomical as the requirement expands, becomes capable of supporting the payout on a refinery installation. So you transport crude over the long haul--in this case,

from Kagoshima--and finished product around the northern island by small coastal vessels or railroad. You may set up a refinery in anticipation of a five-year payout, which could result in your paying it out in two years, or, if you miscalculate on the other side, another couple of years to pay out. The payout on most facilities was very short in Japan. We didn't go into New York with a project and suggest that they go along with the idea unless it was a very attractive--a very short-range--payout. However, factors in the market or other drastic changes in the economics of your current method--perhaps freight rates go crazy in coastal transportation because of some new concession granted to the seamen's union--can change the rationale behind erecting a new facility in a new location.

Marcello: Talk about the relationship between Caltex (Japan) and Caltex (New York) that developed during this period when you were running the Japanese operation. Was it kind of an evolving relationship?

Van Nostrand: It evolved, yes, because of external influences. First of all, the things that might not have interested headquarters in the early days, when I was there, could change drastically. I think that when you go from a low volume operation almost overnight to a large volume, that's one thing that can change the amount of attention that you attract to the details of the relationship. Then there was the improvement in communication speed.

When I first went to Japan, we couldn't have a really coherent, complete telephone conversation because it was radio telephone. It was difficult to communicate. If you talked and the other man said, "Uh-huh" or sneezed, he blocked you out completely; it was a one-way circuit. Of course, this had its merits. You could always say you didn't understand what was being said (chuckle). But the communications improved drastically, and then in addition we got to the point where the teletype circuits became very efficient. The time differential was particularly good for Caltex (Japan) because we could lay a problem on the Telex at the close of business, six o'clock in Tokyo, and if you got there in the morning--you were interested enough in the reply that you got there in the morning at seven o'clock--the messages would be in and you'd have your response, particularly if it was something that an in-house New York decision could be made on. Now this increased the efficiency of decision making. It also brought them closer to our operation and involved more people.

Marcello: Was this good or bad?

Van Nostrand: Well, I was lucky. I had working in the early days as my area director the man in New York primarily responsible for the operation--Lyle Stone. Lyle was a very knowledgeable businessman. He was a very controversial figure in Caltex for other reasons, but on the business side, I mark him as one of the best that I ever associated with in Caltex. It's

another story, but he--and he alone, I think--is responsible for the fact that we are operating in Korea today. I don't think that without him we would have the operation we do in Korea.

At any rate, with Lyle having had previous Japanese experience with SCAP and later with Caltex (Japan) and having this great business acumen, I found it easy to conduct my affairs with New York. This was a great advantage because all you had to do was to make sense to him, and then he would carry the battle into the executive suite and usually emerge successful. Our ratio of success was very high in those days. Later, after he retired, in seeking to fill the job with knowledgeable people, they finally had to resort to the utilization of men who had worked for me in Japan and who had that knowledge from that experience. Once again, we made sure that people were there that were scrappers, that could take the fight into the boardroom if necessary. Then, for real crisis management we had as president and later as chairman Jim Voss, who had the knowledge of Japan and who had the experience.

The problem, I think, with the headquarters and field operation is that when a new man comes into the headquarters slot, he requires a lot of education. The field man may have been there a long time, and he's got to help the new man understand what the differences are between his former operation

and this new one. It's almost absolutely essential to have people with solid background to work with, and I must say, in all the time I was there, I just had a succession of men that did the job and did the job well. Occasionally I would get calls from New York, usually from Jim: "Look, we've fought it out in the boardroom, and we've lost. Now there's only one last resort. They're tired of hearing your area director here, and Bill Tucker, and they're tired of hearing me argue the case. So you've got to come in." His strategy was that they always paid more attention to the man on the spot than the people who were communicating his words or his requests--whatever--and tabling his numbers. We lost very few when I had to go into the boardroom. We lost very few because the New York gang had prepared the way; they had fought their fight well. Maybe they had been turned down, but we got the appeal out of this strategy. So that's the way we operated. It was an unusual thing. I don't think other areas operated that way at all. Australia perhaps did.

Marcello: Now when you first became the manager in Japan, who was the chairman of the board?

Van Nostrand: It was Neal Lilley, then Singleton, and then Jim Voss after Singleton.

Marcello: Let's do a couple more character sketches of some of these individuals. Since Lilley was the first, give me a character sketch of Neal Lilley and his managerial style and so on.

Van Nostrand: I didn't have enough contact with him compared to these

other people, so I cannot talk on that extensively at all. He was a man who seemed to me, from the Japan viewpoint, the kind of executive who delegated things concerning Japan to the people assigned to that task in New York. I think our area vice-president at that time was probably Frank Zingaro, and we were Frank's baby. Lilley didn't, to me, seem to be getting into things, but that was because I was out there and couldn't see how much he was discussing Japan's affairs. Now when I went in for board presentations and he was presiding, he was very supportive--always--and seemed to me to have good control of the subject. But he depended on his executives to do their jobs. From my standpoint, it was an effective stewardship where Japan was concerned. I know that he came from the European operation, and he was much more concerned, on a direct level, with things that were occurring there, where he felt he had a great area of expertise. But where Japan was concerned, with no background and no experience, he stayed out of it until it came to the crunch, and then he supported it.

Marcello: How about Alec Singleton?

Van Nostrand: Well, of course, Alec, according to Jim Voss, was one of the best executives that Jim had ever been associated with. Jim had great admiration for him. Again, I didn't see too much of Alec Singleton. He made a couple trips to Japan. Principally, he was not involving himself on too direct a

basis with Japan, and that reason was because now Voss was out of Australia and in New York in an assistant vice-president capacity. So Alec drew on Jim's knowledge and depended on Jim's opinion where things with Japan were concerned, and that kept him one step back from that. But he was, no doubt about it, a great executive. He really knew the business. He did some dramatic things in the company, and he did them without a lot of flourish and very successfully. As I say, Voss, who worked with him everyday, is the authority there. He could see him at close range, and he really admired Singleton's abilities.

Marcello: How about Jim Voss?

Van Nostrand: Well, again, I was lucky. I knew Jim. I had the benefit of his prior experience in my job; his sympathy for the problems and the frustrations and the stresses; his knowledge of the people, the characters and their personalities, which was all important in trying to decide which way to go. And he had, based on his own frustrations, a great belief in the idea that Japan should be run in Japan, that it shouldn't be dictated to by New York, that more autonomy should be delegated to all his field executives; but, more important, that it be there where we were not a 100 percent-owned subsidiary, where we had partners, and where we should be trying to keep up on a daily basis with the feelings and the problems that existed for them. There was no vice-president

in New York in charge of Japan that could keep all that in his portfolio, so that's why you had to delegate as much as possible to Japan. These were the pluses of the Voss stewardship.

The negatives were that because of his knowledge of Japan, his great affinity for the operation and the people, he was always suspect in the boardroom. Whenever something came up and it got to a healthy discussion level, he was the "prophet from the hometown." This worked against him, and it's why so many times he said, "I'm not going to argue with you anymore. I'm bringing in Steve, and you can talk to him."

This was the way the operation went. It would have been impossible to try to keep up with the expansion and the developments in Japan and try to educate everyone with responsibility in New York as to why that had to be done, why this peculiar situation existed, and so forth. I must say that it's fortunate that we have a more subdued operation and less volume, less requirement for money, and less requirement for cooperation now in Japan. Ray Johnson is truly an authority on Japan. When he took over the vice-presidency of Japan and had to absorb what the hell this complicated thing was all about, he came out there and sat in our offices for weeks and, as a result, really in detail knows more about the operation than I gained in being there for twenty-five years, because he made a study of it, a concentrated,

detailed study of aspects that I wasn't concerned with but that he was interested in. So he comes well-equipped. But there's an experience gap between our chief executive officer now and the cadre of experienced people he should have between Ray and the field organization. As I said, I think it's fortunate that we don't have the expansions going on, the requirements for money, the requirements for this, that, and the other, that we used to have to pace, and pace very carefully and very closely, in the old days. I don't think we could fully staff it, quite frankly.

Marcello: The Japan operation is a very mature operation now compared to what it was when either Voss or you were there.

Van Nostrand: Definitely. I think it was a very lucky thing for Caltex in the early days that things fell into place the way they did, so far as people are concerned. It took local knowledge and understanding. It was a period when it required every single bit of both that you could muster. We really attained tremendous movement of crude, which was the Caltex high priority.

Marcello: You'd certainly have to give me a ballpark figure on this, I'm sure, but what percentage of Caltex profits might have come from Japan? Would you have any way of knowing that or guessing at it?

Van Nostrand: No. Caltex, being a wholly-owned corporation of two competing partners, doesn't publish a balance sheet or

an annual report. So the numbers that we are aware of are numbers that have been occasionally reported off-hand to me by a chief executive on a personal basis who knew that I would find them interesting. There are no public figures, so it's impossible to accurately determine. You can determine how much of the product sales are allocated to your area, and you can determine how much your remittances affect total numbers, but where total profitability is concerned, that is not generally known in Caltex. This might go right back to our trading relations. We buy the crude--Caltex--from our shareholders and sell it through Caltex offshore. The final assembly of profitability determined by a large volume of crude absorption is back in the books of the parent companies.

Marcello: We talked earlier about the fact that at one time the name of the game was moving crude. When did all of that change?

Van Nostrand: When OPEC started pricing crude instead of Caltex and the other oil companies. We're talking about 1960, a period when Minas crude sold for \$1.77 a barrel and Arabian heavy for \$1.40; and the prices, looking back at them now, were just fantastic. But we had control of the operation, and there were good margins. There was great profitability in moving crude, even at those prices. You could tell that by the attention that the shareholders paid to it. When we started paying \$25, \$26, \$28 a barrel for crude, the economics became even more obscure to us in the field.

There was no way of knowing what was occurring back in the home office.

Marcello: One of the things that Mr. Voss initiated, I believe, were the annual meetings of the regional directors. Do you think that that was something whose time had come, or it should have come long before this time?

Van Nostrand: I would think that where Japan was concerned, its time had come. I don't know that there would have been much of an interest or need previously, but certainly this was not the case about the time he inaugurated the practice and called the first meeting. There was a lively interest on the part of Caltex people, not just about neighboring countries, but what were we doing everywhere and how could we interrelate to each other, how could we prevent, in some cases, stepping on each others heels. Also, it was an opportunity for us to determine the welfare of the total company, and you only could determine it that way, by talking to the others: "How are you doing in Transylvania?" Yes, they were and are very useful. They're also great opportunities for executives back home who are moving up the ladder. They get to know the field personnel which helps them to choose in turn future executives to bring in to work and to in turn ultimately move up the ladder. You need to evaluate the whole group, not just the ones in your own narrow bailiwick. The meetings were valuable in that regard.

If that's enough of an opinion on that subject, I think the more important idea to Japan that Voss evolved was the establishment of the annual meeting of the directors of Caltex and the joint venture companies in Japan. As a pattern, it was so seemingly successful that it was later established for Korea and, I think, for Australia, where we have outside ownership. But you can imagine this monster growing in Japan and having to sit in the local boardroom and say, "Well, this sounds like a good idea, and we will propose it to New York and get their understanding of it." After a period of time, to the Japanese executives New York got to be a vague, menacing figure back there--a faceless gigantic corporation: "How do they feel about us?" "Do they really know what we're doing out here?" Voss, by bringing these guys head to head across the table from each other once a year, eliminated the idea that it was a large impersonal arrangement. The Japanese chief executive officer of Nippon Petroleum Refining Company could be sitting next to the Texaco or Chevron vice-president director and size him up on a business plane, listen to his ideas, and then on the social side have a few drinks, get out on the golf course and further know him. They became people rather than organizations, and it relaxed everybody. And they began to look forward to the meetings as something very valuable to the conduct of the operation. They didn't sit down and conduct

business; they didn't do that. The Japanese side would start by describing the Japanese economy today and tomorrow, and the American side would respond. Then the Japanese side might say, "Here's what we're contemplating, a five-year program." They'd lay it out in dollars and cents and facilities and get an appreciation of it, get a chance for the directors of our parent companies to ask questions designed to secure information for use in their own boardrooms. They can now prepare their own board members: "This is what's coming in Japan, and here's why they need it." They're informed. Well, this has been really useful, because while business isn't actually conducted the information is passed. This was a great breakthrough, I thought, when we started the meetings.

It carries on today. You try to set them up so that they steer around the major issues that may be existing, even disputes that may be existing at the time. You talk about them; you mention them. But you don't argue them; you don't debate them. It's almost like you're thinking out loud on your side of the table. So they all go back to the point where they have to make decisions in their own boardrooms and their own council chambers with a better understanding of what the project is, what the ideas are, the reasons behind them. These are things that are supposed to be covered with extensive documentation, but, damn it, you can't read it.

You can't go through a hundred pages of a very complicated refining project and absorb it all, but you can sit down with them and see why they need it and that it's going to be a good thing. It has smoothed out a lot of the humps in the road.

Marcello: I should have done this earlier, but I'll do it now. I'm going to throw out some names of some Japanese executives to you, and just respond however you wish in terms of describing them and so on. Mr. Jochi of Koa.

Van Nostrand: President and ultimate chairman. One of my favorites. He was a very taciturn man with an engineering background. He didn't have too much to say, but when he talked he made a lot of sense. He was a great Koa man. I mean by that that there were no interests that he had that were more important than Koa. He was dedicated. He was one of the co-founders of the company, incidentally, and he was very dedicated to the people and very popular with them. He had a sort of withdrawn personality; he was not at all extroverted. He was a very close friend of Shun's. He and Shun, I know, admired each other greatly. He had a delightful wife--very beautiful, very sensible, charming. They made big contributions to the operation.

Marcello: Mr. Horikoshi of Tokyo Tanker Company.

Van Nostrand: Horikoshi was one of the Nippon executives coming up in the hierarchy that, I guess, presented some problems to

the overall planners of top level succession. So in their quiet, easy way, he was shunted off into the Tokyo Tanker position, something he knew little or nothing about. Once he had it, he grabbed the ball and started running with it. He had a very, very able, aggressive lieutenant, a man by the name of Tsuboi. Tsuboi-san had been a former executive of the Japanese government on the marine side--the maritime bureau--who had been hired for Tokyo Tanker Company. The two of them were quite a team during the time that the bigger ships began to develop and the freight economies of the operation improved. He was a very cosmopolitan-type. He spoke excellent English. He had a good sense of humor.

But like many of them, he was very Japanese. For example, you may be familiar with No Drama in Japan. This is a very exotic form of theater that is perhaps the most subtle art form that has ever existed in the world. It's all done by gestures; the words are meaningless. In fact, they go back to the old Japanese that nobody understands today. But the motion of the finger or the tilt of the head is all meaningful to these people. It's an art that has no general interest, but because it's part of the culture, it is felt that it should be perpetuated; it should be kept. The only way you can learn it is by rote; the only way you can perform it is by practice and practice under the tutelage of people who go way back. A segment of the

business community in Japan--top level--has taken it as their responsibility to try to perpetuate this art by financing both the creation of the very elaborate gold-embroidered costumes and the many nights of hard work involved in learning the songs, learning the gestures. Until the day Horikoshi died, he devoted himself to trying to learn No Drama--to support it by fees to his teachers. And he would give recitals that were fantastic. Other executives did other things, like, learning the old Japanese folk songs, which, again, are not something that are written down and can be learned that way. They have to be passed along. To make sure that there's a bridge, these people with the material resources that can support these kinds of pursuits do it. And Horikoshi was outstanding in that regard. He devoted a lot of his life to the No Drama.

Marcello: We mentioned this next one briefly before, but I'll throw his name out again--Mr. Kamimura.

Van Nostrand: As I say, he came into the leadership of Nippon at the time when we had lost Shun, and he recognized the need for action that would sort of heal the loss. I think he was very successful in bringing it off. To me, that was his greatest contribution to the partnership--his insisting that the top executives and their wives move in closer to the Caltex (Japan) people, understand them better and communicate with them better--all in pursuit of more business harmony.

Marcello: Another Nippon Oil executive was Mr. Takiguchi.

Van Nostrand: Mr. Takiguchi was the man who had been trained for ultimate take-over of the company, and he was very well qualified for it. As he came up through the ranks, it was obvious that he was a bright star. He spoke little or no English. In the boondocks where he was district manager and general office manager and things like that in coming up, we had very little contact with him. But he had a hell of a reputation. He was anti-American, and he was anti-Caltex. He was "Greater Japan" through and through, and that was it. We really did not look forward to the day when he might have a position of close relationship to us, and it occurred very suddenly with the resignation of Mr. Kurita. He moved in, and, as I say, the first year or so I really thought I had my work cut out for me. This was a kid glove operation.

Marcello: In what way?

Van Nostrand: In that we knew that we were going into an antagonistic atmosphere when we went to the weekly executive committee meeting or whatever the contact was going to be. And we were quite certain that all of his remarks were not being translated out of political politeness (chuckle).

But to cut through a few years, I don't know of any of the Nippon Oil top executives that ever developed into being more of a Caltex booster, a Caltex friend, and a really great addition to the group's welfare than Takiguchi. I don't

know what swung him; I have no idea; I have no theories on it. But I do know that he swung, and he swung 180 degrees. It was something else.

And he was a fighter. The offshore executives were scared silly of Takiguchi (chuckle). Of course, we had built him up because we knew he was a pepper pot. We had warned them it was going to be like this. But his residual reputation with them remained as a tough monkey. Even after he had changed, it was a long while before they could recognize that in him.

The great tragedy was that he and another great Caltex friend and a good executive--the head of Nippon Petroleum Refining Company, Mr. Okada--both had to resign as a result of, to put it directly, a dispute between two government offices who had control of the petroleum industry in Japan and who needed goats. They were both forced to resign over a series of hearings on alleged price-fixing in the marketplace.

The real story from an insider's point of view was that there were indeed sessions between the leaders of the various oil companies who got together on a regular basis within the association of which they were all members--the equivalent of our American Petroleum Institute--the petroleum association of Japan, and during periods of market disruption, they worked out price levels for various products in concert. Now this is prohibited by Japanese law to the same extent it

is here. But these sessions were at all times chaired by a MITI representative, so these men were operating with the understanding that these were sanctioned activities being conducted on behalf of the government.

There was another very powerful MITI department, the Mining Bureau, which has always disputed MITI's control of the petroleum industry. And the Fair Trade Commission, which has the same function in Japan that ours does here, took the position, when they found that these meetings had taken place, that MITI did not have authority to override the antitrust laws of Japan, which discriminated against price-fixing very forcibly, and therefore that MITI's presence was unimportant. So in hearings before the Diet, they took the position that these were illegal activities and that these men should be prosecuted--the leaders of the industry. So the entire group of chief executives that had sat in that meeting all resigned.

So we lost two very valuable men in the group, and without good reason. As I say, if the Fair Trade Commission and the Mining Bureau and MITI could have sat down and said, "Look, we're in a moment of crisis that requires this kind of action, and these people are blameless. We called them in and we asked them to conduct these discussions, and we in turn provided them with what we thought was appropriate protection by our presence." That didn't happen. As I say, we lost Mr. Takiguchi. But while he was there, he

was a very effective leader.

Marcello: How about Mr. Nakajima, who was president of Nippon Petroleum Refining Company?

Van Nostrand: Nakajima-san had, like most of their eventual top executives, moved through the organization in many different capacities--marketing, accounting, finance. They usually all arrived at the top with a wide scope of experience in their own business, so they were very capable of taking over the leadership. Nakajima was assigned the portfolio for finance at the time that finance was perhaps one of our most important activities. He was given the job of securing funds and negotiating with Caltex on loans from their own banks, and he was very effective. This was what highlighted his attractiveness as an ultimate top leader. He was, I think, very competent. Also, he was ultimately very pro-Caltex.

Marcello: One more--Mr. Noguchi.

Van Nostrand: Mr. Noguchi, Sr. or Mr. Noguchi, Jr.?

Marcello: The one that was president...

Van Nostrand: They both were--father and son.

Marcello: Okay, let's start with father first.

Van Nostrand: Well, the father was one of the co-founders with Mr. Jochi of Koa. He's one of the reasons why Koa was such an efficient business organization, because he had come to Koa from the banking fraternity. He was with either Mitsui or Mitsubishi in west Japan and ran a bank. He came from an old Samurai

family, a fact that he took quite seriously. He was president of the company at the time that Caltex appeared on the scene, and he really wanted to put something together. He and Mr. Jochi and another founder by the name of Usui were the ones that approached Caltex to try to--as they did successfully--bring about a partnership arrangement.

Mr. Noguchi was a very independent chief executive. First of all, he had been an officer of his company during the period when they were independent and wholly Japanese--before the period with Caltex. I think he chafed under, let's say, the restraints placed on his authority by our joining the partnership. At times he was cause of concern to my predecessors because he would do things without informing properly the Caltex organization.

By the time I came along, he was still running the company, but with Mr. Jochi's strong assistance, and he was bringing along his sons, one of whom was an engineer and the other of whom was a scientist. The scientist is the present head of Koa Oil Company, Terry Noguchi.

Mr. Noguchi, Sr. had surrounded himself with all these people with financial experience and expertise, and that was what accounted for the very strong presence in the refining company of people who knew how to make it run efficiently. He drafted his oldest boy, Terry, to come into the company as a director and to move up the corporate

ladder to ultimately replace him. He had hand-picked him. Well, he had the problem of acceptance by us, and worked very hard during the time I was there--when he was trying to promote Terry--at cooperation, real cooperation, because he didn't want anything to interfere. However, Terry was not applying himself to the general operation of the company, and should have been. He was more interested in what was going on in the refinery lab, and he was more interested in buying exotic equipment to test and research by-products of petroleum rather than knowing what the profit statement had to say that quarter. So I had some very serious meetings with Mr. Noguchi and young Terry, pointing out that if he was to be the successor to his father, he was too narrowly channeling his knowledge of the company. We needed to know things from him that he could only provide from detailed and up-to-date knowledge of the company in the manner of his father. We had an understanding; it was not too pleasant. Terry began to apply himself to the job, but he is still more of a scholar. Interestingly enough, he told me that he was working with a group of scientists at Kyoto University on their version of the atomic bomb just about the time we dropped ours. And they were pretty close. The Noguchi's lost one of their sons, a petroleum engineer who was assigned to Indonesia to work the fields down there during the war that had been taken away from Socal and other operators. The

transport he was on was bombed, and he was killed. That didn't seem to have affected the family's attitude toward Caltex.

I remember the morning Terry phoned me and said that their father had died during the night. Nicky and I rushed over to the house, and they had him lying clothed on the top of his bed with a big Samurai sword right along side of him. He truly revered that ancestry, even though he didn't talk much about it or act in a way to give an indication.

Young Terry, as I say, came along. He'd rather be a scientist; he'd rather be a teacher, a scholar. And he'd be a damned good one--quite a brain. Business, I think, to some extent bores him. I believe that he in turn now has two sons. He carries on and he's interested in the development and the success of the company so that they at least will have a chance at it. Maybe it's going to be much more difficult for them.

Marcello: I have an observation to make. I'm just looking at this list of operations that came under the Caltex umbrella in Japan. We mentioned all of them in this interview--the relationship with Nippon Oil, the relationship with Koa Oil, Nippon Petroleum Refining Company, Tokyo Tanker Company. That had to be a pressure-packed job. So I guess my question is, why did you want to remain in that job for your entire

career with Caltex?

Van Nostrand: The work had to be the most interesting anywhere in Caltex, and I couldn't picture any other company having a comparable job--to be able to go off in the morning and not know what you're going to do all day long, not know what surprises or developments were going to take place. That, to me, made life very exciting, very interesting. Living and working in Japan, for the most part, can be, if you're on a routine basis, a very boring experience. The country moves at a fast pace, but to a certain extent it's very formal. You do the same things; everybody does the same thing everyday. But not in the case of this job.

I think the way we worked things out in meetings between the Japanese and Caltex executives made it interesting, too. As you say, there weren't any small problems. If you're doing eight or nine million dollars worth of business a day, you get behind just a couple of days and you're in serious trouble. But the willingness and interest in working these things out to mutual satisfaction always seemed to pervade the atmosphere of the meeting room. It was very helpful in keeping the pressure off.

As I say, I was backed up in New York by people that knew what I was up against, that weren't always questioning me: "Well, what the hell are you asking for that for? Why are you doing this?" They had an understanding of why I

was doing it even before I even tabled the thing. But then the big problem was there--to translate their knowledge and my information into something comprehensive to two companies that, for the most part, once they understood it, would consider, "Well, we wouldn't do it that way." So that was where the real pressure came from.

We had problems that resulted in the need to discuss these with the parent companies on a very detailed basis. I didn't envy the people in New York--that part of it. It was certainly much easier for me to sit down with the partners even when I had very bad news to convey, even when I had to be very, very disappointing to them in my responses, when they were expecting me to bring about something that I wasn't able to do, and explain to them why. I found that less difficult than it would have been for me to sit in the boardroom and try to get the guys across the table to understand and to go along. I understood what their problems were, too. They've got to go back to people who know even less about Japan and the Japanese and the operation and try to get the understanding there. It was a complicated chain-of-command.

I have a very material reason for remembering...I told you about the time when Minas crude was selling for \$1.77 a barrel in Japan, and we had contractual obligations to be competitive with our price to other major suppliers of

the same crude coming into Japan. Well, we were experiencing difficulties. People were selling Minas cheaper in Japan. Now it's unbelievable today to remember these things, but I do. I can remember that I would get on an airplane and go to New York and sit down in the boardroom and argue all morning for a concession of five cents a barrel off that \$1.77 a barrel, because we had to be competitive. We had proof that that was what competitors were introducing it into the Japanese market for. I'd have to go back and argue about things like that.

Well, then we come to the problems of OPEC and the soaring price overnight of crude oil. I had to explain to the Japanese what was occurring, what the proportion of their new costs were going to be. It was going from \$1.77 to \$15 and \$20 dollars.

I remember the session when I sat down and explained all this after I had come back from discussion with the board as to how we were going to establish these increases without breaking the back of the Japan economy. We worked out a plan, and when I presented the plan, they shook their heads in Japanese fashion. I went upstairs after the meeting. You talk about pressure! I wasn't under pressure; I was just working hard to get understanding. But I was soaked with perspiration.

I was getting ready to go home that night--it was about

four hours later--and the interpreter, Hank Yamada, whom I have mentioned earlier, came up and he said, "I've got something for you. You know, it's traditional in Japan that when you move your office, your friends give you something to decorate the office. When we moved from the old building to this building, you were on home leave, and we never gave you anything. But Mr. Kamimura and Mr. Takiguchi want me to give you this." They gave me a letter, and then two guys came in with a big six foot-by-six foot painting for the wall. I don't have it here; I have it up in Massachusetts. But it's a very special painting. They had called Nicky, and they had said, "We want to give Steve something. If we ask him what he wants, he won't tell us. You tell us of something that he's going to get someday, that he aspires to own--something that he would like to have." She mentioned a couple of things, and they said, "No, we mean something significant." Then she told them about the special artist that did a special kind of work and how I was waiting for the time I could afford it. It stayed up on my wall all the time I was there. But the letter was signed by Takiguchi and Kamimura, and it said, "We are very much aware of the problem we've presented you with in today's meeting, and we would like you to accept this out of consideration for today's meeting and past kindnesses." They should have been up in arms over that (chuckle). Caltex was going after them with

these tremendous price increases, and instead they were that considerate.

Marcello: I have a couple more questions relative to the relationship between Caltex and some of its Japanese partners. For instance, we know that back in 1951 the Nippon Petroleum Refining Company was born, and it was jointly owned, I think, by Nippon Oil and Caltex, and it built a series of refineries eventually. Why was it that such a company came to be formed?

Van Nostrand: In my opinion, it was a means of acquiring an assured outlet for the crude oil, which was at that time the prime target of the operation. I think they had developed through discussions with the Nippon Oil Company that it would not be possible to buy an equity in Nippon as they did in Koa. Nippon was primarily operating at market level and because they were a racial company--100 percent Japanese--they felt that they could be more effective in the marketplace if they retained their complete isolation from foreign influences. For that reason, they made an arrangement with us, for example, on the use at market level of the Caltex logo, which made it possible for them to employ it on all service stations, all bulk depots, and refinery sites as a means of identification with Caltex at a time when that identification in the marketplace indicated that they had a very strong and desirable affiliation with American

interests. In later years, as this became less important, when Japanese buyers and Japanese customers were a little more sophisticated and didn't consider that there was any advantage to Nippon being associated with Caltex, we began to phase out the display of the Caltex logo in favor of their own. Today the Caltex logo is not employed, except on a few small decals in most of the service stations. Primarily the marketing is done under the Nippon Oil Company, which has a wholly Japanese image.

Marcello: Mr. Van Nostrand, you must be one of the very few Caltex executives who remained in one post for such a long period of time. That usually has not been company policy, isn't that correct?

Van Nostrand: It has not been company policy and is not company policy today, the main reason being that the field is supposed to be the preparing ground for the executives of Caltex tomorrow. The field experience is considered to be essential to their development and their progress. I think the only reason I have stayed in place as long as I did was that we were not a typical Caltex installation. In most countries, Caltex operates as a wholly-owned subsidiary; whereas, in Japan we're involved with very complicated partnership arrangements and without influence or activity at market level. It is so completely different from Caltex operations in other areas that I think that management just

felt that if I were willing to stay on, they were quite happy to have a man in place who knew the complexities and knew the people. That accounts for the long stay.

I also think that Caltex in part was responding to the general outspoken criticism that was constant from Japanese partners of American companies that they had difficulty understanding their foreign partners because the manager came in and by the time they got to know him and to be able to negotiate successfully or smoothly with him--to have mutual understanding--he was yanked out and sent to some other country. So they were constantly pleading in for some sort of continuity because they felt this was an advantage in the partnership arrangement.

Marcello: Did the spinoff of the Caltex operations in Europe to the parents have any effect upon your operations in Japan? Did you feel that in any way?

Van Nostrand: I don't think there was an immediate effect. I think it resulted in lateral activity that could be traced back to the spinoff. For example, I think that had Caltex continued to operate as they did in the pre-spinoff era, with two or three large tanker fleets, the requirement for Tokyo Tanker's emergence might have been diminished. They had been formed, but I don't think they would have grown to have been the very large organization they were if we still had access to plentiful charters with Caltex companies. I think the loss

of the Caltex fleet probably influenced the emergence of and the rapid growth of the Tokyo Tanker Company. That's the only thing that comes to mind that resulted from the spinoff.

Marcello: When you have differences between the parents, which evidently was the case relative to this spinoff, do those kinds of differences eventually filter down to the various subsidiaries?

Van Nostrand: I'm not sure what your source of information was on the matter of differences. I think that one of the main reasons for the spinoff was, of course, the fact that they were dissatisfied with the conduct of the European market. But this was something shared by all companies. There were no successful operators that they could compare Caltex to. It was a condition of the marketplace. But I think the spinoff, according to my recollection--and I was in the Washington office at the time--was more a function of the cartel suit and the fact that it was necessary for Caltex to operate differently in Europe than it had and for the parents to cooperate differently. The consent decree said that we would, in certain areas, not continue to operate the way we had the past. That was my understanding of the prime force behind the spinoff, that rather than being considered like Standard Vacuum--guilty of misconduct and therefore being required to separate the companies and dissolve

Standard Vacuum--that we had a consent decree that permitted us to continue to operate. But obviously this could not be done in the European operation as it was prior to this understanding. That was what I gathered as being one of the forces, rather than just the discontent between parents.

I think the discontent between parents as to how Caltex operates is probably basic and never ending. I explained my theory, that they operate so differently. Through their emerging years, they've had different kinds of market-places in which to operate and this may have dictated different styles. These styles can be conflicting. The spinoff didn't change any of that; I think they probably were just discontented--perhaps more--with each other in Europe than they were with Caltex.

Marcello: I think it goes without saying, Mr. Van Nostrand, that Caltex has been a highly successful company in the fifty years of its existence. Do you have any general thoughts as to why it has been so successful?

Van Nostrand: I don't really have thoughts as to why it's been so successful. I probably have more questions as to how it ever came to be successful. With the makeup it has, I think it's quite obvious that it's an awkward corporate structure to have two competing organizations attempting to be in complete harmony on a very large operation that incorporates so many different problems. I think that it's impossible to separate

the philosophies of the companies from being felt by the independent Caltex board. You operate in accordance with your training and your experience, and so they bring two types of training and experience to the boardroom.

I think that we have had, through the formative and early years, some very strong men as our executives. I think of people like Herron and Pinckard and right down to Voss--people who recognized the potential of the company and, more importantly, were willing to battle for its best interests and preservation of its independence.

I think that part of the success was the timing of our real growth, our principal growth. It was done in parallel with the equally large or even larger growth in other industries and other companies in the postwar period.

I really feel it was, to a great extent, the introduction of new blood and young people coming out of the service who were the principal staff of all of these companies and all of these industries during that period. Maybe they brought something, too, that affected the rate of growth, rate of success. It really comes down to good management in my estimation. We've always had the opportunity in the Caltex field organization to feel free to really argue for what we think is correct--not always successfully, but at least we know we're not expected to fill the role of a "yes" man, that we're expected to be a thorn in the side of home

management at times, and if you're not willing to go through the unpleasantness of the argumentative approach, why, then perhaps you're not the right man for the job. I think Caltex has permitted that under the succession of people that I've worked for and worked with. That can't be discounted as a reason for success. If everything is rubber-stamped from the home office, I think terrible mistakes can be made in the field operation.

Marcello: Well, I want to thank you very much for having participated. You've said a lot of very interesting and important things relative to the development of Caltex in Japan specifically and Caltex in general. I'm sure that your comments will be useful in the writing of the history of Caltex.

Van Nostrand: Thank you. I look forward to reading what I said.

A P P E N D I X

SHUNKICHI NOMURA, A MAN OF ABILITY BEHIND THE SCENES

S. Nomura spent half his life in foreign country. He stayed in U.S.A. for thirty years. He therefore has a very wide circle of friends. His personal history runs as follows:

HIS EARLY LIFE:

He was born in 1889 as the second son of Ryutaro Nomura, doctor of engineering and an authority in the railway circle. His wife was born of well-known Matsukata Family. In 1911, he graduated from Kobe Commercial High School (Present Kobe University) and was employed by Mitsui Bussan. He served in its New York Branch, U.S.A., and resigned in 1921.

MOTIVE TO ENTER INTO OIL BUSINESS:

In 1922, he was taken to U.S.A. by Kojiro Matsukata who purchased 6,000 acres of land in Orange, Texas, for the purpose of oil prospecting. He worked hard for Mr. Matsukata, and his experience at the then formed his motive to become a oilman.

HE AND MITSUBISHI OIL:

He returned from America in 1923 and was employed by Mitsubishi Trading. He contributed to establish "Fuel Dept." in the same company. Also he served as the branch manager of Seattle and San Francisco. And he rendered great services in the founding of Mitsubishi Oil, acting as an intermediary for the cooperation between Associated Oil of U.S.A. and Mitsubishi Trading.

In 1931, he was appointed to the executive director of Mitsubishi Oil. But he resigned in 1933.

ESTABLISHMENT OF "NOMURA OFFICE":

After that, he established his "Nomura Office" and engaged in crude and fuel oil import business. At the time, Japan was about to open the World War II, following the Manchurian Incident and the China Affair. Oil demand in Japan was therefore steeply increasing. He had a great many customers, as he was famous for his skill and long experience in oil business, and well versed in the petroleum conditions in U.S.A.

He supplied petroleum to the ex-Japanese Military facilities and civil oil companies in Japan. In 1939, petroleum imported by him reached 500,000 tons and he won his reputation in both foreign and domestic oil markets.

He was so famous that people often said "American crude and fuel oil can not be imported to Japan without the intermediation of Mr. Nomura."

However, soon after the World War II broke out, he had a slump in his business as well as other oilmen. And also, for several years after the war, he could do nothing, as crude oil import was forbidden by order of GHQ in Japan and all oil refineries situated on the coast of the Pacific Ocean was closed.

REFINERIES REOPENED:

Mr. Nomura, who was looking for an opportunity to resume oil business in Japan, negotiated with the officials of GHQ and U.S. Government in Washington over and over again, although his efforts and services were not made public.

At the then, he kept his faith that foreign loans only could restore the destroyed Japanese oil companies. Thanks to his faith and efforts NOG and Caltex Oil Ltd. became the affiliated companies. Cooperation between Koa Oil and Caltex was realized by the good offices of Mr. Nomura.

He has proved himself really capable in restoring oil companies after the war.

CALTEX OIL LTD.:

Mr. Nomura is only a Japanese director of Caltex Oil (Japan) Ltd. and also he holds additional posts of director of NPRC, Koa Oil and Tokyo Tanker, representative of Nomura Office, board chairman of Tsurumi Transportation, Committee-man of Japan Olympic, consultant of Japan Swimming Association and committee-man and vice-chairman of Japan Golf Association.

As to his golf, he is known as single player. He became one of executive committee-man of World Amateur Golf Committee which was established for the promotion of international friendship, and he took part in the first and second international golf game, leading Japanese team to it.

He contributed to make the schedule of the third International Golf Game, slated to be taken place at Kawana (Izu district) in Japan.

He is also selected as the first Oriental member of Royal and Ancient Golf club of St. Andrews, the golf center of the world.

This owes much of his career which proves that he has been playing an active part in the world.

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