**The original documents are located in Box 8, folder "Energy - Oil Decontrol (1)" of the Loen and Leppert Files at the Gerald R. Ford Presidential Library.**

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HR 9524 Signed 9/29/75

GERALD R. FORD LIBRARY

# NEED FOR DECONTROL

## WHY ACT NOW?

- Since price controls on domestic oil were imposed in 1971, there has been a four-fold increase in world oil prices. As a result the U. S. paid foreign oil producing nations $25 billion in 1974 compared to about $3 billion in 1973 -- a seven-fold increase. This not only represents an outflow of U. S. dollars, but could support one million more badly needed jobs for American workers.

- Since controls were established in 1971, our imports of oil have almost doubled. Further, in the last two years domestic crude oil production has dropped almost one million barrels per day and will continue to decline.

- The last embargo caused a GNP loss of $15 billion and threw hundreds of thousands of Americans out of work.

- In two years, with no action on this issue, imports from vulnerable sources could double. An embargo then could result in another one million American jobs in jeopardy.

- Decontrol of domestic oil will start this nation in a new direction that will restore jobs, security, and eventually free this country from the yoke of the foreign oil producers.

- Action on decontrol has been delayed for too long already. The President has already submitted several compromise proposals and has gone more than half way towards decontrol. Each has been rejected, but the Congress has offered no positive program of its own.

- Unless the veto of the 6-month extension is sustained action will be stalled until after the 1976 elections. We must get on with reducing our import vulnerability now.

- If the veto is sustained, and the Congress wants to compromise and enact a program like the President's 39-month decontrol plan, the President will sign a 45-day extension of the EPAA.

EFFECTS OF DECONTROL

- Decontrol, even with removal of current import fees, will reduce imports by about 700,000 barrels per day by 1977. Higher energy prices have been documented to reduce demand.

- Decontrol will provide an incentive for the use of increased high-cost recovery techniques in currently declining fields. These advanced recovery techniques would not be economic at %5.25 per barrel controlled prices, but could add about 1.4 million barrels per day of production by 1985.

- Decontrol would remove a complex and burdensome regulatory program which was enacted to deal with an embargo and is unwarranted now.

ECONOMIC IMPACTS

- If a compromise cannot be reached and complete decontrol continues, the President will take several actions to east the transition.

- The President will remove the current \$2.00 import fee on crude oil and \$.60 fee on petroleum products when his veto is sustained. This action will keep the average petroleum product price increase to about three cents per gallon.

- Further, the President will take steps to ease the following potential problems:

  - He will ask for authority to allocate propane at reasonable prices to farmers, rural households, and other historical users.

  - He will seek authority to allow retail dealers to challenge in court any unfair practices by major oil companies.

  - He will request legislation to provide an incentive for small and independent refiners equal to their current benefits under the entitlement program, which gradually phases out.

- The President will continue to press for a windfall profits tax on the oil industry with rebates of the revenues collected to the American consumer.

RON NESSEN STATEMENT RELATED TO SENATE VOTE EXTENDING THE EPAA FOR 75 DAYS

1. In agreeing to this extension the President has agreed not only to accept an extension of the Act until November 15, 1975, but also agreed not to submit a plan for administrative decontrol prior to November 1, 1975.

2. The President has continually met the Congress more than half way on this very difficult pricing issue. It should be clear that this extension places a burden on the Congress to legislate an acceptable program to phase out price controls during the extension period.

3. Should an agreement not be reached during the period of extension the Congress will also have an obligation to pass the legislation requested by the President in order to insure an orderly transition to complete an abrupt decontrol. This includes an acceptable windfall tax program, legislation to assist independent refiners and retail marketers, and standby legislation to control propane marketers during periods of natural gas shortages.

4. It goes without saying that the Congress must simultaneously move to pass the natural gas legislation to both avoid serious disruption this winter and begin a long term solution to our declining natural gas supplies.

FACT SHEET - OIL DECONTROL

The President has indicated that he cannot accept an extension of price controls on oil past August 31 unless Congress approves his compromise plan to decontrol over 39 months prior to its recess.

The only way Congress can approve the President's compromise plan prior to recess is to reject H. Res. 641 - a resolution to disapprove the President's program. The only alternative to rejection is immediate decontrol on August 31.

Some Congressmen believe that a better approach to this issue is to approve H. Res. 641 -- to reject the President's plan administratively -- and then approve Rep. Krueger's amendment to H.R. 7014, an amendment that would legislate the President's 39 month compromise into law with a windfall profits tax.

This latter approach is not viable in the few days remaining before the recess. H. R. 7014 contains many controversial features that may not be resolved by Friday. The windfall profit tax has not even been developed. There is also the issue of how to move H.R. 7014 through the Senate before recess. Rep. Krueger has proposed to conference H.R. 7014 with S. 622, a bill that has never had hearings in the House and one that passed the Senate with only a narrow margin due to several controversial provisions. The House simply cannot accept such a measure without a full debate.

There is no need to even try to rush H.R. 7014 or S. 622 through the Congress before recess, even if it were possible. Acceptance of the President's decontrol plan by rejecting H. Res. 641 is only valid for 90 days under provisions of the Emergency Petroleum Allocation Act.

If the resolution is rejected, the President would accept a short extension of price controls and Congress would thus have additional time to complete H.R. 7014 with the Krueger amendment and an appropriate windfall profits tax. During this period, prices would be rolled back below current levels as a result of the President's administrative action. Immediate decontrol would be avoided.

If Congress could not resolve these issues by the end of 90 days, the President's administrative action would terminate unless approved by Congress for a second 90 day period. With this option, therefore, the Congress has a significant insurance policy.

Finally, it should be noted that the Administration has agreed to drop the import fee on residual fuel, heating oil and other products as part of the President's decontrol plan. Besides the price reductions already present in the President's compromise, this further action would reduce energy bills along the east coast and in areas such as California by $300 - 400 million per year.

# FACT SHEET

## THE PRESIDENT'S COMPROMISE OIL DECONTROL PLAN

### THE PRESIDENT'S ANNOUNCEMENT

The President today announced a new compromise plan to gradually decontrol the price of old oil (oil now under federal price controls) over a 39-month period. In addition, the President announced for the same period a ceiling on the price of all uncontrolled domestic oil (other than from wells which produce less than 10 barrels per day which are currently exempted from controls) of approximately $11.50, increasing at $.05 per month beginning October 1, 1975.

The President also called for enactment of energy taxes including a windfall profits tax (with appropriate plowback provisions) and extension of the Emergency Petroleum Allocation Act to implement the decontrol plan. These actions will result in substantial energy savings, provide an incentive for expanding domestic production, and ultimately remove a complex and counter-productive set of regulations.

Under the President's plan, imports will be reduced and prices will increase gradually, but consumers will receive energy tax rebates. Phased decontrol will thus not impede economic recovery.

### BACKGROUND

- The price of old oil is currently controlled at an average of about $5.25 per barrel, while the average price of new domestic oil is now uncontrolled and is about $12.50.

- Controlled oil currently represents about 60 percent of domestic oil production. New, released, and stripper well oil account for the remainder.

- Domestic oil production has been declining since 1970 (it is down 11% since early 1973) and is now about 8.4 million barrels per day (MMB/D), a decline of more than 500,000 barrels per day from last year (see chart 1).

- Imports are predicted to average about 6.5 million B/D, but are expected to rise to up to 7 MB/D by the end of this year, which is about 40% of domestic consumption.

- Imports are expected to grow to an average of more than 7.5 MMB/D in 1977, if no action is taken to reduce demand or increase supply. The added imports in the next two years are expected to come mainly from Arab nations and could double our vulnerability to an embargo (see chart 2).

- The Emergency Petroleum Allocation Act of 1973, which requires the control of prices and distribution of oil expires on August 31, 1975.

- None of the measures requested by the President almost six months ago in his State of the Union Address has been enacted by the Congress.

- The President originally proposed in his State of the Union Address immediate and total decontrol in April, 1975. In response to concerns expressed by some Members of Congress, on April 30, 1975, the President directed FEA to hold public hearings on a phased decontrol plan in May.

- The President submitted a 30-month decontrol plan to the Congress on July 14, 1975, which also contained a $13.50 per barrel ceiling on domestic oil. The 30-month plan was disapproved by the House of Representatives on July 22.

- Under provisions of the Emergency Petroleum Allocation Act, either House of Congress has five working days in which to disapprove a decontrol plan by majority vote.

OBJECTIVES OF THE PLAN

The plan announced by the President is designed to meet the following objectives:

- Achieve a major reduction in imports by providing an incentive to increase domestic production and by cutting demand through increased conservation.

- Reduce the power of foreign oil cartels to control the prices Americans pay for energy.

- Provide a compromise decontrol plan acceptable to the Congress.

- Remove over a 39-month period the complex, counter-productive, and administratively burdensome government redulations.

- Eliminate excessive oil company profits and minimize consumer and economic impact by rebating energy taxes.

PRINCIPAL ELEMENTS OF THE PLAN

Today's proposal by the President would gradually remove price controls from all currently controlled oil over a 39-month period beginning September 1 of this year and ending in November 1978. Under this plan, the amount of oil under controls is decreased by an additional 1.5 percent per month of a decontrol base production level (which is the average monthly production of old oil during April, May, and June of this year) for the first year beginning September 1, 1975, 2.5 percent per month for the second year; and 3.5 percent per month for the remaining 15 months.

The 39-month ceiling on prices for domestic crude oil proposed by the President would be equal to the old oil ceiling price plus $6.25 per barrel, for a total of approximately $11.50 per barrel.

Prices of domestic oil produced from stripper wells -- wells producing less than 10 barrels per day -- are not now controlled nor would they be under the President's proposal.

The President also announced that along with the decontrol plan, he would urge the Congress to enact his proposed energy taxes including a windfall profits tax with appropriate plowback provisions and to extend the Allocation Act with appropriate modifications to cover this 39-month decontrol period.

The President also called upon the Congress to enact the other critical conservation, domestic supply, and emergency standby measures which were included in his State of the Union proposals of January 15, 1975.

IMPACT OF THE PLAN

- On prices:

The President's phased decontrol plan will increase the average petroleum product price (such as gasoline) by a cumulative amount of approximately:

End of

1975 - ( .7¢)/gal.

1976 - 1.7¢/gal. (total)

1977 - 4.4¢/gal. (total)

- On Import Savings:

| End of | Phased decontrol - alone | Phased decontrol, existing $2 import fee & other proposals by President |
|---|---|---|
| 1975 | 30,000 | 260,000 |
| 1977 | 300,000 | 1,400,000 |
| 1978 | 550,000 | 1,950,000 |

CHART 1

DOMESTIC PRODUCTION OF CRUDE OIL

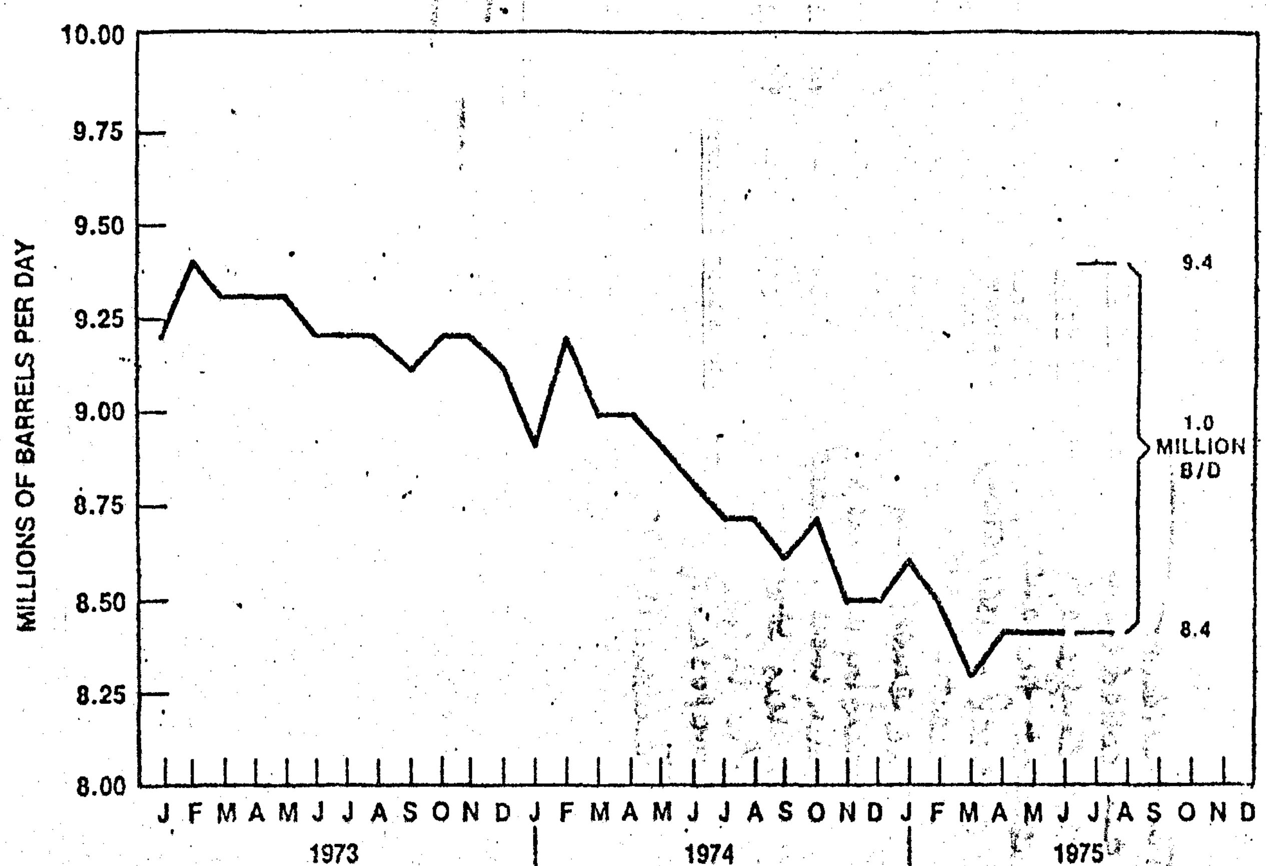
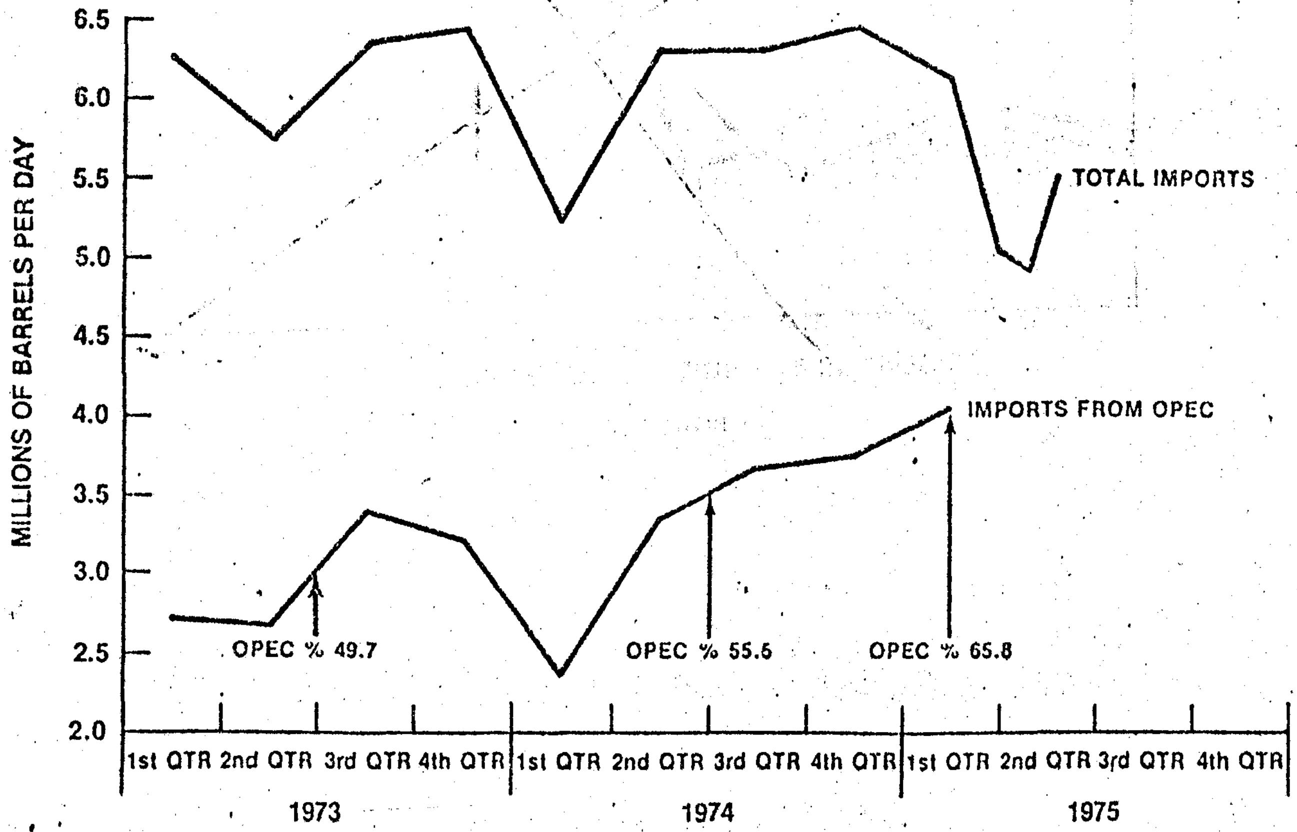


CHART 2

IMPORTS OF CRUDE OIL AND PETROLEUM PRODUCTS



# FACT SHEET
# OIL PRICE DECONTROL

## THE DECONTROL PLAN

On July 25, 1975, the President announced and sent to the Congress a new compromise plan to gradually decontrol the price of old oil over a 39-month period and to place a ceiling on domestic oil prices. The specific elements of the plan are:

- Imposition of a new ceiling price on September 1, 1975, for all domestic crude oil (other than stripper well crude oil which is exempt from controls under statute) that rolls back prices to about \$11.50 per barrel. The ceiling would be increased at \$.05 per month beginning October 1, 1975.

- Gradual removal of price controls on old oil (about 65 percent of domestic production; currently at about \$5.25 per barrel) at a rate of 1.5 percent per month for the first year beginning September 1, 1975; 2.5 percent per month for the second year; 3.5 percent per month for the remaining 15 months ending November 30, 1978.

- An interim 3-month extension of the Emergency Petroleum Allocation Act, to afford sufficient time to reach agreement on modifications to be incorporated in a longer extension coterminous with the 39-month decontrol plan.

- The President requested a windfall profits tax with plowback provision, his other energy taxes and consumer rebates of such taxes.

## IMPACTS OF THE PLAN

The impacts of the decontrol plan will be felt gradually over the next 39 months. The impacts are summarized below:

- Economic Impact
  The combined effect of the gradual phase-out of old oil and the imposition of the new ceiling price will be to reduce average prices of petroleum products by .5-1.0¢ per gallon by the end of 1975; and to raise average prices by a cumulative total of 2.0¢ per gallon in 1977 and 5-6¢ per gallon by the end of the phase-out in November 1978. (See chart below.)

- Import Savings
  Decontrol will reduce imports by about 190,000 barrels per day in 1977 and 515,000 barrels in 1978. Combined with the existing $2.00 import fee and the President's proposals on Elk Hills, coal conversion, insulation tax credits and auto efficiency improvements, import savings in 1977 will total 1.24 million barrels per day and 1.77 million barrels per day in 1978.

- Domestic Production
  Decontrol will enable high cost secondary and tertiary recovery to proceed economically on old producing properties. Without decontrol, old oil production will continue to decline and approximately 1.4 million barrels per day will be lost by 1985.

IMPACT OF COMPROMISE ON PRICES

| Timing of Decontrol | Cap | Cummulative Price Increases, as of 4th Quarter 1975 | 1977 | 1978 |
|---|---|---|---|---|
| Immediate (1) | None | 6-7¢/gal | -- | -- |
| 30 Months (2) | $13.50 | 0.5¢/gal | 4-5 | 5-6 |
| 39 Months (3) | $11.50 | -(.5-1.0)/gal (4) | 2 | 5-6 |
| Krueger Plan (60 Months) | None | 1.5¢/gal | 3-4 | 4-5 |

(1) Proposed on January 15, 1975

(2) Proposed on July 14, 1975

(3) Proposed on July 25, 1975

(4) Decrease from price levels otherwise allowable under FEA price regulations

FACT SHEET
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THE DECONTROL PLAN

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- Gradual removal of price controls on old oil (about 65 percent of domestic production; currently at about $5.25 per barrel) at a rate of 1.5 percent per month for the first year beginning September 1, 1975; 2.5 percent per month for the second year; 3.5 percent per month for the remaining 15 months ending November 30, 1978.

- An interim 3-month extension of the Emergency Petroleum Allocation Act, to afford sufficient time to reach agreement on modifications to be incorporated in a longer extension coterminous with the 39-month decontrol plan.

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(4) Decrease from price levels otherwise allowable under FEA price regulations

# TALKING POINTS ON RESOLUTION OF DISAPPROVAL ON CRUDE OIL DECONTROL

° Reporting such a resolution is premature

- The President has not even forwarded the proposal to the Congress.
- The details of his plan are unknown, so how can Congress defend a resolution of disapproval.

° Congressional inaction and blocking of Presidential action on energy is unwise.

- The energy situation is worse now then during the embargo.
- By 1977 we will be importing twice as much from the Middle East.
- By 1977 our outflow for oil will reach almost $30B compared with $3 billion in 1970.
- The President has a program to deal with this problem and Congress has done nothing.
- Decontrol will be a powerful incentive for reducing our vulnerability.

GERALD R. FORD

# TALKING POINTS ON H.R. 6860

° The legislation is not a comprehensive program.

- No provisions to increase supply.
- Without a windfall profits tax, crude oil decontrol is not possible, but badly needed.

° The legislation has serious deficiencies.

- Part of the gasoline tax is not recycled to the economy, but put in a trust fund (several billion $).
- The gasoline tax is the equivalent of about $10 per barrel.
- Other petroleum products, which constitute over 60% of what we consume are largely exempted.
- Most of the tax credit and amortization provisions are clearly ineffective and costly.

° The legislation conflicts in many areas with legislation now before the House Commerce Committee.

- Auto efficiency standards
- Windfall profits tax
- Trigger on additional gasoline tax and mandatory gasoline allocations.

° Legislation should not be reported.

- It is defective.
- At minimum there should be an open rule.

GERALD R.

DISCUSSION PROPOSAL REQUIRING THE IMPOSITION OF DOMESTIC PRICE CONTROLS WITHIN A RANGE OF ECONOMIC TOLERANCE

The proposal would be designed to avoid the complexity and political shortcomings attendant to any attempt to write legislative price ceilings for different categories of production. Instead, the President would have administrative flexibility to create different tiers as he may determine may be administratively feasible and justified, subject to a statutory limitation on discretion which requires the President to impose price controls so as to obtain a fixed composite price for the total of crude oil consumed in the United States. The proposal would also have the advantage of creating incentives to break the OPEC cartel price below today's levels.

The proposal would consist of the following elements:

1. The Congress would establish a composite monitor price to serve as a limitation on Presidential discretion.

2. The composite price would initially be fixed at $9.[redacted] per barrel.

3. If the President removed the current $2.00 import tariff he would be permitted to use a $13.00 per barrel import price in calculating the composite monitor with an assumed constant quantity of 4.0 million bbls/day of crude imports. In order to bring pressure on breaking the OPEC cartel the President would be permitted to employ the lesser of a $13.00 import price or the actual landed price. Thus if import prices go down, he would have greater flexibility in adjusting prices at the domestic market level.

4. The $9.[redacted] composite monitor price could be adjusted by reference to the GNP deflator to keep that price at 1975 real dollars. Also, the President would be permitted to amend the pricing regulations as they apply to new oil, old oil, or stripper well oil to take into account and provide for field decline or incentives for enhanced recovery, OCS production, Alaskan production, etc., so long as the effect of the regulations did not permit an increase in the composite monitor in excess of 4 percent per year above 1975 real dollars.

5. If the President did so amend the regulation so as to result in an increase in real dollar terms within the 4 percent limitation any adjustment to the composite monitor price which makes reference to the GNP deflator must exclude price increases which result from the 4 percent growth in domestic energy prices.

6. This program would continue without termination except that in the 20th month the President would be directed to submit an economic and domestic production analysis to the Congress at

which time the authority to permit a 4 percent increase per annum above real 1975 dollars would be suspended if either House of the Congress voted to disapprove any further increase. A review mechanism which employs the expediting procedures contained in the bill would apply, thus avoiding any possibility that a resolution to suspend the program could be filibustered in the Senate or blocked or held up in the Rules Committee in the House.

THE WHITE HOUSE

WASHINGTON

May 19, 1975

MEMORANDUM FOR: JOHN O. MARSH
MAX L. FRIEDERSDORF

THRU: VERN LOEN VL

FROM: DOUGLAS P. BENNETT DPB

SUBJECT: Energy Tax Legislation

On Monday, May 19, the Rules Committee is scheduled to take up H. R. 439 - a resolution out of the Commerce Committee which would block the President from administratively decontrolling the price of "old" oil as announced a short time ago. Recalling that upon compliance by the Administration with the Administrative Procedures Act (notice hearings etc.) and the appropriate paper work forwarded to the Hill, either House of the Congress by resolution agreed to by majority vote may block the President from taking this action. This paper work will not be going to the Hill until the latter part of this week.

In addition to the five Republicans there are three Democrats whose Districts reflect oil interest - Long, Young and Sisk. In order to prevent this bill from being granted a rule, I have asked Waggonner and Burleson and they have agreed to approach these three individuals and also Delaney so as to arrange the votes against Rules' approval of this resolution. I believe there will be success in this effort.

On Tuesday the Rules Committee is scheduled to take up the Energy Tax Bill - H. R. 6860, the so-called Ullman bill - out of the Ways and Means Committee. Although this bill was reported out of Ways and Means by a 19-16 vote, in my opinion more than two-thirds of the members of that Committee are in opposition to that bill and will speak against it on the House Floor. The Committee provided no title for windfall profits tax, hence little hope of legislative inclusion of decontrol. The rule Ullman will be requesting will be a four-hour open rule, express provisions that no new titles may be added to the bill and all amendments must be printed in the Congressional Record by today.

Since the granting of such a rule would prevent the inclusion of decontrol/windfall profits tax, it is the Republicans desire to open up the rule further so as to allow amendments on this title. Barber Conable argued strongly in the Ways and Means Committee for this but the effort failed. Frank Zarb advises that he had a commitment from Ullman that the windfall profits tax would be taken up by Ways and Means so that it could be included in this bill. Frank feels he has reneged on this commitment.

The House Commerce Committee - John Dingell's Subcommittee on Energy and Power - reported out last week a package which includes decontrol over a five-year period (fundamentally acceptable to Zarb) and guidelines for a fairly stiff windfall profits tax. There is mixed emotion within the oil industry respecting the windfall profits tax. The steps being taken to include this title on the Floor are basically the same as above, i.e. get the oil state Democrats and the Republicans to agree to such a rule. Bud Brown, Ranking Republican on the Dingell subcommittee, will be introducing this title today. The potential problem is that the oil state people will find the windfall profits tax too tough and hence will be reluctant to take it to the Floor for fear the windfall profits tax will be made even more harsh.

With the objective of posturing the President so that if he decides to go forward with the second dollar of tariff, he has strong rationale for so doing, we are attempting to open up the rule, remain pure as Republicans, and probably witness a full House further diluting the Ullman bill so that it becomes completely unacceptable. In this connection, the whole thrust of the Ullman approach rests in a gasoline tax which can rise to a total of 23¢ a gallon. All of the other provisions in the bill are merely trappings. It is the widely shared concern that the gasoline tax will be struck on the Floor and leaving virtually a <u>nothing</u> bill.

EMBARGOED FOR RELEASE
UNTIL 9:45 A.M. (EDT)

July 14, 1975

Office of the White House Press Secretary

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THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

To reduce our growing dependence **on** foreign oil, I will today send to the Congress a compromise plan to phase out remaining Government price controls on domestic oil by January, 1978.

During this period of decontrol, a price ceiling will be placed on all domestically produced oil to ensure that American crude oil prices cannot be dictated by foreign oil producers.

By removing these government controls, domestic production of oil will be stimulated and energy conserved. Decontrol and the import fees I imposed earlier will reduce our dangerous reliance on foreign oil by almost 900,000 barrels a day in just over two years.

There is no cost-free way to reduce our dependence on increasingly expensive foreign oil. Although gradual decontrol will result in a price increase on all petroleum products -- less than one and one-half cents per gallon by the end of the year and seven cents by 1978 -- this is a small price to pay for our independence from the costly whims of foreign suppliers.

If the Congress acts on this compromise, on my other proposed energy taxes, including the tax on excessive profits of oil companies, and on the energy tax rebates for the American consumer, then the burden of decontrol will be shared fairly. Our economic recovery will continue. We will be able to protect American jobs.

The problem is -- 60 percent of all domestic production is still price controlled at about $5.25 per barrel. This price discourages the use of new and more expensive production techniques. It encourages wasteful use of this limited domestic resource.

But the powers I possess under the current law to phase out controls are limited. Either the Senate or the House of Representatives can prevent gradual decontrol from going into effect.

I urge the Congress to accept this reasonable compromise. If it does not, my only alternative to ensure continued progress toward energy independence, will be to veto an extension of the oil price control law which will expire in August.

The plan I propose will gradually lift price restrictions on controlled oil and place a ceiling on all domestic crude oil prices.

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We still have the choice of acting in our own best energy interests instead of reacting to decisions made by foreign countries. We must start thinking of the energy crisis in terms of American jobs, homes, food and financial security.

Our economic well-being and national security depend upon American control of the American economy. We cannot jeopardize the future by avoiding the tough energy choices today. We must pay the price necessary to give us command of our own economic destiny.

# # # #

EMBARGOED FOR RELEASE
UNTIL 9:45 A.M. (EDT)

July 14, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

The President's Compromise Oil Decontrol Plan

## THE PRESIDENT'S ANNOUNCEMENT

The President today announced administrative actions to gradually decontrol the price of old oil (oil now under federal price controls) over a 30-month period. In addition, the President announced for the same period a ceiling on the price of all uncontrolled domestic oil (other than from wells which produce less than 10 barrels per day which are currently exempted from controls) equal to the price of uncontrolled domestic crude oil in January, 1975, plus two dollars a barrel to account for the import fees already in place. This will be approximately $13.50.

The President also called for enactment of energy taxes including a windfall profits tax (with appropriate plow-back provisions) and extension of the Emergency Petroleum Allocation Act to implement the decontrol plan. These actions will result in substantial energy savings, provide an incentive for expanding domestic production, and ultimately remove a complex and counter-productive set of regulations.

Under the President's plan imports will be reduced and prices will increase gradually, but consumers will receive energy tax rebates. Phased decontrol will thus not impede economic recovery.

## BACKGROUND

-- The price of old oil is currently controlled at an average of about $5.25 per barrel, while the average price of new domestic oil is now uncontrolled and is about $13.00.

-- Controlled oil currently represents about 60 percent of domestic oil production. New, released, and stripper well oil account for the remainder.

-- Domestic oil production has been declining since 1970 (it is down 11% since early 1973) and is now about 8.4 million barrels per day (MMB/D), a decline of more than 500,000 barrels per day from last year (see chart 1).

-- Imports are predicted to average about 6.5 million B/D, but are expected to rise to up to 7 MMB/D by the end of this year, which is about 40% of domestic consumption.

-- Imports are expected to grow to an average of more than 7.5 MMB/D in 1977, if no action is taken to reduce demand or increase supply. The added imports in the next two years are expected to come mainly from Arab nations and could double our vulnerability to an embargo (see chart 2).

more

-- The Emergency Petroleum Allocation Act of 1973, which requires the control of prices and distribution of oil expires on August 31, 1975.

-- None of the measures requested by the President almost 6 months ago in his State of the Union Address has been enacted by the Congress.

-- The President originally proposed in his State of the Union Address immediate and total decontrol in April, 1975. In response to concerns expressed by some Members of Congress, on April 30, 1975, the President directed FEA to develop a 25-month compromise decontrol plan. The Federal Energy Administration held public hearings on this proposal in May.

-- Under provisions of the Emergency Petroleum Allocation Act, either House of Congress has five working days in which to disapprove a decontrol plan by majority vote.

OBJECTIVES OF THE PLAN

The plan announced by the President is designed to meet the following objectives:

-- Achieve a major reduction in imports by providing an incentive to increase domestic production and by cutting demand through increased conservation.

-- Reduce the power of foreign oil cartels to control the prices Americans pay for energy.

-- Provide a compromise decontrol plan acceptable to the Congress.

-- Remove over a 2-1/2 year period the complex, counter-productive, and administratively burdensome government regulations.

-- Eliminate excessive oil company profits and minimize consumer and economic impact by rebating energy taxes.

PRINCIPAL ELEMENTS OF THE PLAN

Today's proposal by the President would gradually remove price controls from all currently controlled oil over a 30-month period beginning August 1 of this year and ending in January 1978. Each month the amount of oil under controls is decreased by an additional 3.3% of a decontrol base production level (which is the average monthly production of old oil during April, May and June of this year).

The 30-month ceiling on prices for domestic crude oil proposed by the President would be equal to the highest price charged for a particular uncontrolled domestic crude oil in the month of January 1975, plus \$2.00 per barrel -- the current import fee -- for a total of approximately \$13.50 per barrel.

Prices of domestic oil produced from stripper wells -- wells producing less than 10 barrels per day -- are not now controlled nor would they be under the President's proposal.

more

The President also announced that along with the decontrol plan, he would urge the Congress to enact his proposed energy taxes including a windfall profits tax with appropriate plowback provisions and to extend the Allocation Act with appropriate modifications to cover this 30-month decontrol period.

## IMPACT OF THE PLAN

-- On Prices:

The President's phased decontrol plan will increase the average petroleum product price (such as gasoline) by a cumulative amount of approximately:

| End of | | |
|---|---|---|
| 1975 | - | 1¢/gal. |
| 1976 | - | 4¢/gal. |
| 1977 | - | 7¢/gal. (Total) |

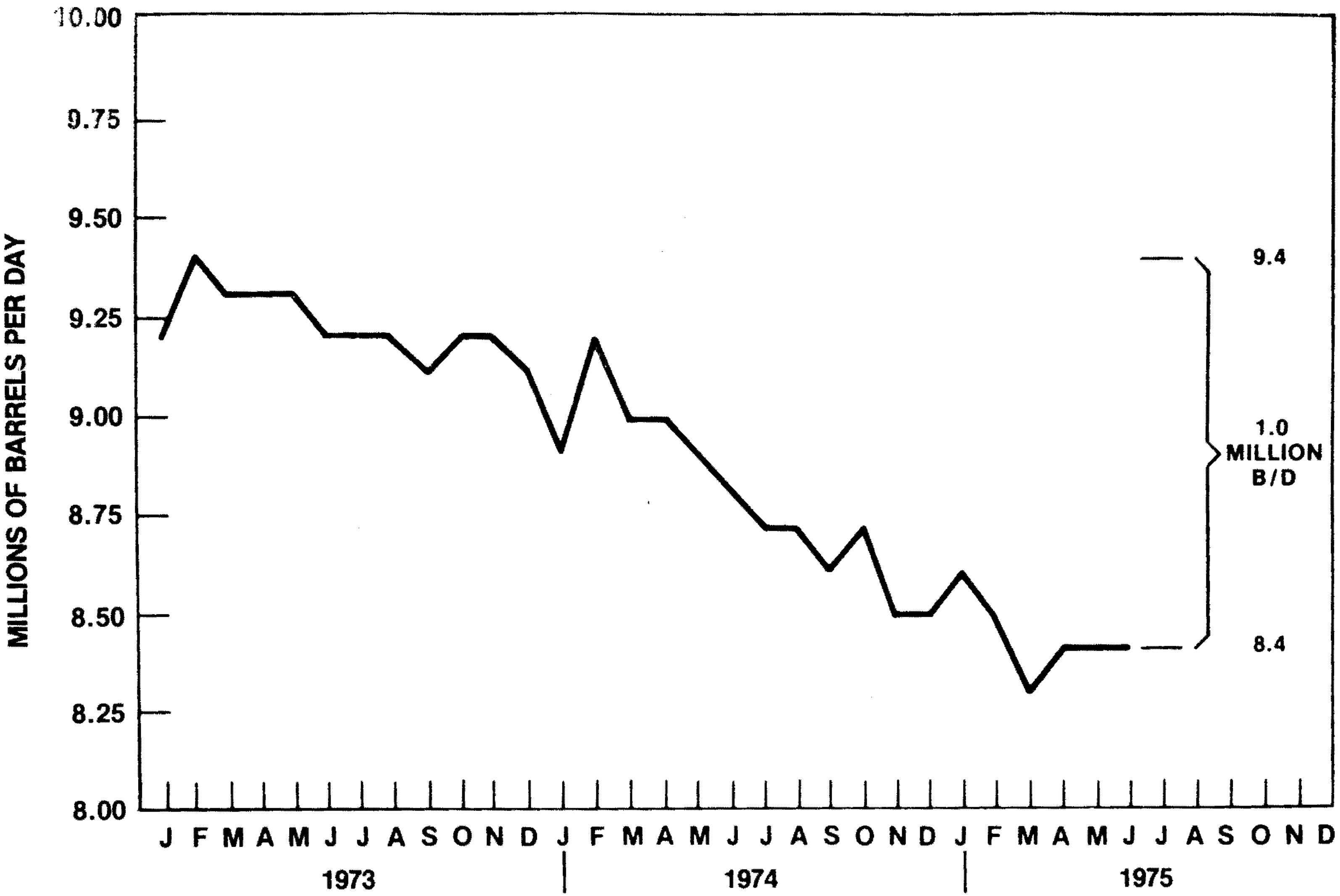
-- On Import Savings:

| | (barrels per day) | |
|---|---|---|
| End of | Phased decontrol | Phased decontrol and existing $2 import fee |
| 1975 | 25,000 | 175,000 |
| 1977 | 300,000 | 900,000 |

# # # #

CHART 1

DOMESTIC PRODUCTION OF CRUDE OIL



## CHART 2

# IMPORTS OF CRUDE OIL AND PETROLEUM PRODUCTS

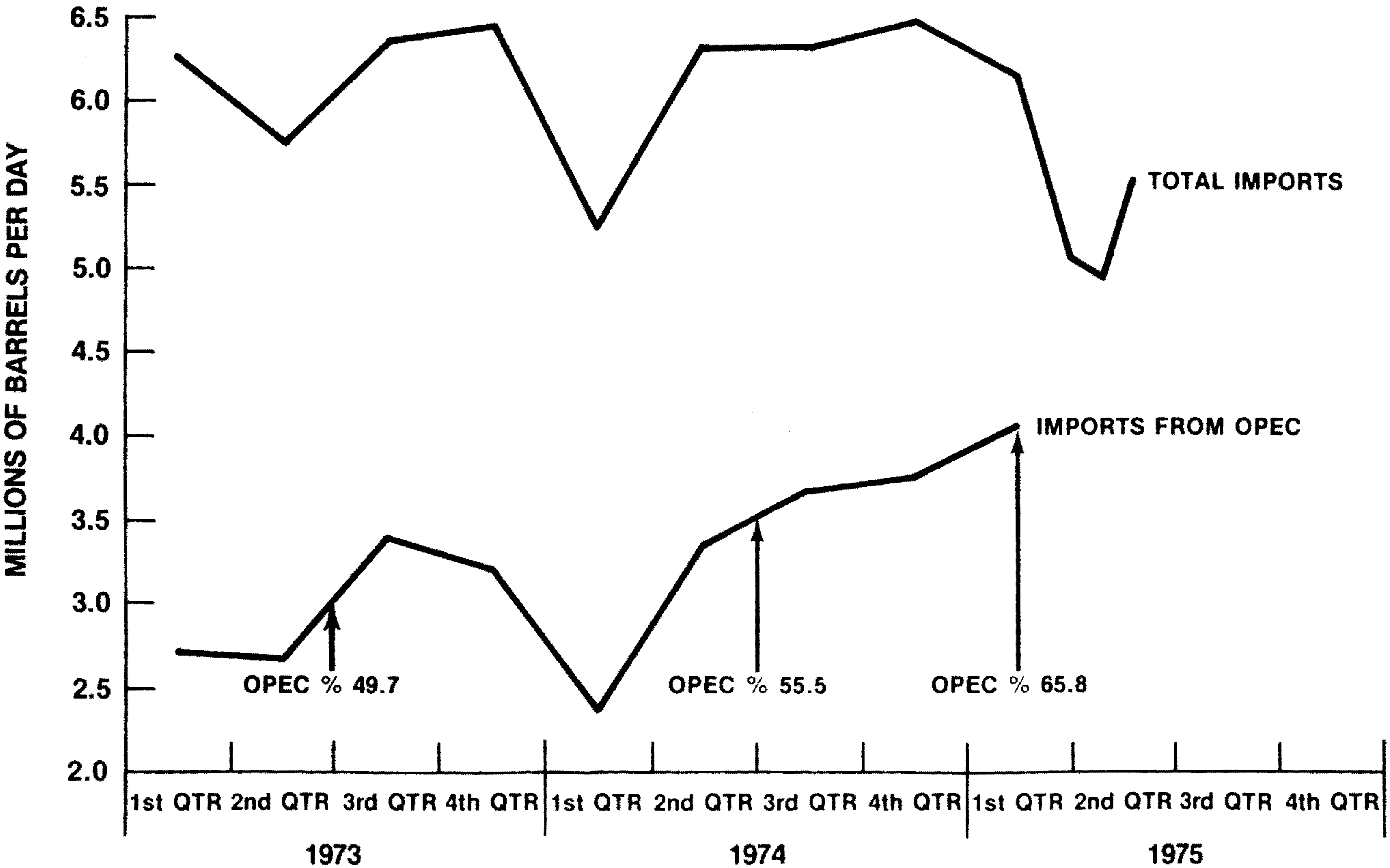
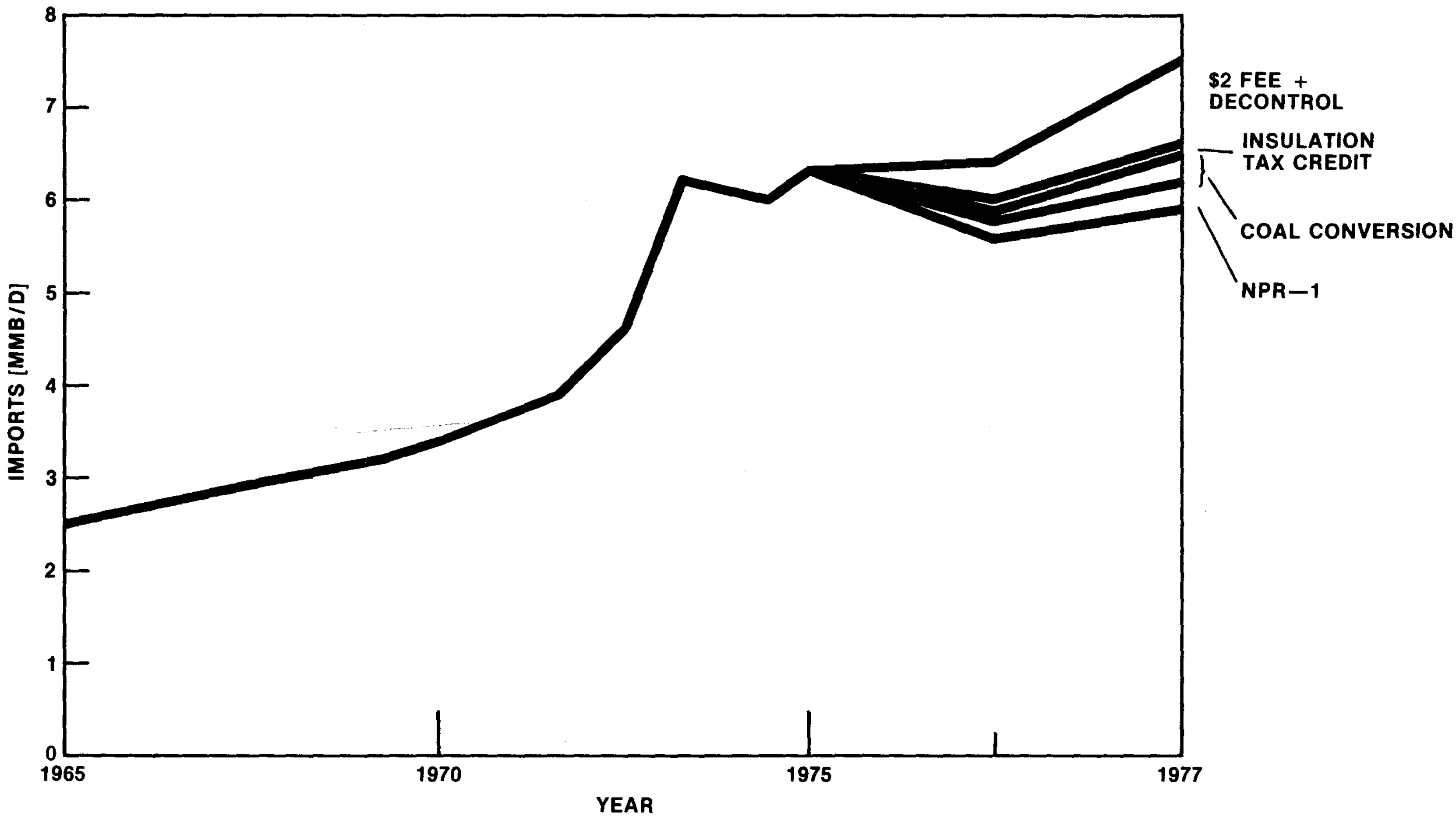


CHART 3

## EFFECTS OF PRESIDENT'S PROPOSALS



FOR IMMEDIATE RELEASE JULY 14, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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THE WHITE HOUSE

REMARKS OF THE PRESIDENT
REGARDING HIS COMPROMISE
ON OIL DECONTROL

THE BRIEFING ROOM

11:32 A.M. EDT

THE PRESIDENT: I have a short statement I would like to read.

To reduce our growing dependence on foreign oil, I will send to the Congress a compromise plan to phase out remaining Government price controls on domestic oil by January 1978.

During this period of decontrol, a price ceiling will be placed on all domestically produced oil to insure that American crude oil prices cannot be dictated by foreign oil producers.

By removing Government controls, production of oil here at home can be stimulated and energy conserved. Decontrol and the import fees I imposed earlier will reduce our dangerous reliance on foreign oil by almost 900,000 barrels a day in just over two years.

There is no cost-free way to reduce our dependence on increasingly expensive foreign oil. Gradual decontrol will result in a price increase on all petroleum products less than one and one-half cents per gallon by the end of this year, and 7 cents by 1978.

This is a small price to pay for our national independence from the costly whims of foreign suppliers.

If the Congress acts on this compromise on my proposed energy taxes, including the tax on excessive profits of oil companies, and on my proposed refunds to the American consumer to make up for higher energy costs, then the burden of decontrol will be shared fairly, our economic recovery will continue and we will be able to protect American jobs.

MORE

The problem is 60 percent of all domestic production is still price controlled at about $5.25 per barrel. This price discourages the use of new and more expensive production techniques. It encourages wasteful use of the limited domestic resource.

But, the powers that I possess under the current law to phase out controls are limited. Either the Senate or the House of Representatives can prevent gradual decontrol from going into effect.

This morning, I held a meeting on this subject with the Democratic and Republican leaders of the House and the Senate. It was recognized that this is a very complicated matter. There seems now to be an agreement that the Nation must have both a short-range and long-range solution to energy problems, and as anyone knows who has seriously studied the matter and who is honest with himself, there is no option or alternative available that is free.

I would hope the Congress would give this important matter the very serious consideration that it deserves and not take hasty action.

I will continue to urge the Congress to accept this reasonable compromise. If it does not, one alternative to insure continued progress toward energy independence would be to veto an extension of the present oil price control law, which will expire in August.

But, the plan I prefer will gradually lift price restrictions on controlled oil and place a ceiling on all domestic crude oil prices.

We still have the choice of acting in our own best energy interests instead of reacting to decisions made by foreign countries. We must start thinking of the energy crisis in terms of American jobs, homes, food and financial security.

Our economic well being and our national security depend upon American control of the American economy. We cannot jeopardize our country's future by ducking the tough energy choices today. We must pay whatever the price is that is necessary to give us command of our own economic destiny.

Thank you very much.

QUESTION: Mr. President, did you run into any opposition at the meeting this morning?

MORE

THE PRESIDENT: We had a minimum of opposition. We had a greater understanding of the complexity of this problem. It was a very beneficial meeting in that there was this understanding and recognition that the energy problem had to be faced very squarely if we were to solve the problem of American independence and to get our own house in order so that we could protect ourselves from the vulnerability of foreign producers.

Thank you very much.

THE PRESS: Thank you, Mr. President.

END (AT 11:40 A.M. EDT)

Price controls on Domestic Oil

FOR IMMEDIATE RELEASE JULY 14, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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THE WHITE HOUSE

PRESS CONFERENCE
OF
FRANK ZARB
ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION
AND
ERIC ZAUSNER
DEPUTY ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION

THE BRIEFING ROOM

11:44 A.M. EDT

MR. NESSEN: This morning we have with us Frank Zarb, Administrator of the Federal Energy Administration, and Eric Zausner, Deputy Administrator of the Federal Energy Administration, to answer your questions.

MR. ZARB: Why don't we get right to your questions.

Q Why did you postpone?

MR. ZARB: The postponement is for a very brief period. Rather than going up at five o'clock tonight, we will probably go up by midweek or around that period.

The question as to why I guess relates to the nature of this process. When we send it up, the clock begins to run, and it ends running five legislative days later, which means that you begin to limit the opportunity to understand the facts, the substance and the impacts.

The President just thought that because of the complexity of the problem and because this presentation is somewhat different than the program we have been talking to up to this moment, that we would be best off having a small opportunity for dialogue before it does go to the Hill.

Q You don't think you have the votes to sustain this action that the President proposes?

MR. ZARB: The decision not to send it today but to delay a day or so was not based upon a vote count.

Q Usually, Mr. Zarb, when the White House uses the euphemism "public discussion" and says that more public discussion is needed, this is ordinarily an euphemism to the fact that at this moment the White House does not have the votes. Did the Congressional leaders tell the President this morning that they did not have the votes for his plan?

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MR. ZARB: I don't want to get into redefining White House euphemisms. There was no question as to "Do we have enough votes?" and the answer, "You don't have enough votes, Mr. President." That was not part of the discussion. There was considerable discussion on the impacts of the program, its specific detail and what it meant. If you wish, I will get into a few of those.

Q Mr. Zarb, in your calculations, what was your thinking about the specific impact of this program on OPEC pricing decisions?

MR. ZARB: I have said a number of times before, and the President has as well, that OPEC pricing decisions and other decisions with respect to their oil policies will be impacted based upon this Nation's resolve to solve its own problem.

Once we have a tough program in place that demonstrates we are going to become less vulnerable, we are going to bring on additional domestic production, then our posture vis-a-vis the producers has changed considerably.

So, if you are asking me whether the implementation of this program will posture this Nation in a stronger position to even deal with the producers over the next ten years, my answer is absolutely yes.

Q If I could follow that up, would that lead to a two-tier price -- a U.S. price and the world price, your plan?

MR. ZARB: That could be the outcome, if you assume that the OPEC countries are going to raise their prices. That could be the outcome.

Q Could I ask, does this represent an end to our attempts to bring down the world price of oil?

MR. ZARB: I don't think we ever will end our efforts in that direction. It does recognize the realities, however, that the extent that we remain vulnerable can increase that vulnerability. We are actually supporting the morale of those who would tend to increase their prices.

Q We now believe the $13.50 then is the right price for oil, is that correct?

MR. ZARB: The $13.50 recognizes current day realities, and if there is a change in that structure, then that should also be recognized, but let me point out what that $13.50 represents because I think it is important.

MORE

The oil prices, new released oil domestically in this country, averaged at $11.50 in January of this year. The effect of a $13.50 ceiling has the effect of freezing the return to producers at $11.50, plus $2 that is affected by the increase in import tariffs.

Now, since new oil will rise to world levels, even including the import tariffs, we proposed in January and continue to propose that the Congress enact an excise tax of $2, taking that away from the producers back to the Treasury and then back to the American consumer.

So, if that occurs, as we had requested, then the net effect of this action would be to freeze the return to American producers at average January 1975 levels, which is equal to approximately $11.50 a barrel.

Did I confuse everybody with that?

Q Let me just go back to this other thing.

MR. ZARB: Ask your questions precisely, and I will get to the answers.

Q Let me ask you precisely on what we were talking about earlier. Is what you are telling us this morning that the Administration is confident that the Congress will go along with the President's plan and since you are confident you want to put off the vote for a few days so everyone can talk about it?

MR. ZARB: I hate to use the word "confident." That is kind of so abrupt and --

Q You say there was no discussion as to whether you had the votes or not?

MR. ZARB: There was not. It is obvious that with respect to this part of the program it has been highly controversial at the Congressional and other levels. On the other hand, it is fairly clear to a number of us that the more it is examined and looked at by thoughtful and knowledgeable people, it will be seen that any change from this position -- for example, reducing prices or rolling back prices -- has to have the net effect of increasing consumption because that is just the way it works -- lower prices means increased consumption, and squeezes out production on the margin and the more you roll back, the bigger that margin gets.

The more you can convince people to examine the real facts, the more they become convinced that this is the most reasonable program that we could go into and still achieve the kind of results that we need to.

MORE

Q Mr. Zarb, the President made a reference this morning to Congress taking hasty action. He hoped they would not take hasty action and would examine this proposal seriously. What is the hasty action he is referring to?

MR. ZARB: I think he was asking for the Congress to examine this proposal in a thoughtful way before they came to any conclusions with respect to their vote, and that means analyzing the real impacts, the changes of this program from the programs we have been talking to heretofore, and if you look at this particular proposal in the principle at which the Congress was developing its own program some weeks back, they are mighty close.

There are some differences, but in principle, we are mighty close.

Q During the decontrol period, as the prices are allowed to rise on old oil, how do you prevent the oil companies from holding back production of controlled oil --

MR. ZARB: Waiting for fuel decontrol?

Q -- waiting for a more favorable price.

MR. ZARB: The reason it is structured the way it is with a 3.3 percent per month release would prompt the producer to take his current total base and release 3.3 percent at that time, which is something of an incentive to have the highest possible number of old oil against which to apply that 3.3 percent.

When you really look at the economics of that, plus the cost of value of withholding that production, we don't think that structuring it this way that we are going to run into that difficulty.

Q Mr. Zarb, if we just took the decontrol program and not the rest of the tax program, what is the impact on recovery of this decontrol program?

MR. ZARB: When you say recovery, please --

MORE

Q Recovery from the recession.

MR. ZARB: Well, this inflation impact statement which we have already produced and published was based upon 25 months straight-line decontrol. We have elongated that to 30-month decontrol. If you exclude all of the taxes--and I assume you mean the excise tax, the windfall tax and the tariff--in or out of your model, where is the tariff?

Q As it now exists.

MR. ZARB: So you leave it in?

Q Yes.

MR. ZARB: It is still our view that the impact on recovery would not be significant and not be that problematical, particularly in view of the phase-out over a 30-month period.

Having said that, I want to renew our request and point this out: that since the dollar tariff went on in February, new oil went above its market levels to begin to reach that first dollar increase. I would like to go over this once more because it really is important.

Imported oil, assume it is at $12 per barrel. The President added a $2 tariff to that level bringing it to $14. New oil was at about $11.50 as compared to the $12 of imported oil. It begins to seek the world levels which means that it begins to seek the new level including the tariff and stops at around $13.50.

The President's proposal, and has been since January, that we put a simple excise tax on that new oil to the equivalent of that $2 -- it comes back to the Treasury and it is returned to the American people along with tariffs and along with windfall taxes when enacted, which I think is an awfully important feature of this overall program.

If it were enacted now, we would be returning -- including the tariff and including the excise taxes which would have been applied to be pari passu -- would be tariffs we would have been returning in addition to a billion and a half dollars to the American people right now.

Q Mr. Zarb, does the excise tax only reclaim $2, or how much does it reclaim?

MR. ZARB: It reclaims $2. The excise tax reclaims $2 without having an impact on consumer prices from what they would be without it.

MORE

Now, the windfall profits ---

Q The difference between $5 and $11?

MR. ZARB: I am sorry. Say that again.

Q What does the excise tax ---

MR. ZARB: The excise tax tends to remove that artificial $2 right from the top of new oil, directly. Then the windfall tax program, when enacted, would address itself to the remaining questions of excessive profits.

Q How do these refunds to consumers work, Mr. Zarb?

MR. ZARB: The original matrix that was set out by the President has, of course, been changed some because of change-out decontrol, because depletion has been changed and a number of other pieces have been changed by the Congress, but the principles remain.

A return of these dollars are to be distributed in a way where the American consumer would get two-thirds of the total and perhaps higher as we look at a smaller body of money. You may recall the first iteration had it so that people in the middle-on-down part of the tax tables receive more back than their increased energy cost. That has not changed at all.

Q Mr. Zarb, how much extra profit will this provide for the oil company?

MR. ZARB: If the program were enacted as the President outlined, there would be no increase in profit to the oil companies in the immediate future. The $2 excise tax would have the effect of actually checking back some of the income that they currently have.

To answer your question squarely, Bill, it would depend on what kind of windfall tax package finally got enacted by the Congress.

Q If you arrived at that situation which you have just mentioned where there was no increase in profit to the oil companies, what would be the incentive to them to increase production?

MR. ZARB: The total profitability at the outset with the implementation of the excise tax would take away some money. The incentivizing would occur at the new oil field, keeping in mind that prices would incentivize conservation in total.

MORE

The old current field now, if you were to drill a new well next to an old well, or use a secondary means of recovery to take more oil out of an existing oil that was declining, that would be under control. This provision, 3.3 percent of that would be eliminated each month so that it would incentivize additional investment in existing fields.

Now over a period of time, and depending again upon a windfall tax program, the return to the oil companies could increase under this provision. How much and how fast would depend upon windfall taxes.

Q Are you saying if the President's program were enacted as he wants it, that there would be no profit increase to the oil companies under old oil, but there would be under new oil? Is that the way you break it down? Is that where your incentivizing comes?

MR. ZARB: The incentivizing comes from the old oil. The new oil would have some effect of rolling back income.

MR. ZAUSNER: The revenues producers would get from new oil would in fact be somewhat rolled back from today's price. In other words, today new oil is selling at higher than roughly $11.50 in response to the tariffs on top of new oil, so that in fact implementing the President's tax proposal would result in less revenues for new oil producers.

With respect to old oil, the key to the windfall profits tax is that while we know $5.25 is not enough to encourage investment in these more expensive new techniques, nonetheless the oil producers do not need $9, $10 or $11 today as an incentive to do that.

So the concept of the windfall profits tax is to pick up all or most of the difference between $5.25 and $11 today so that in, say, the first year, the first six months or at the start of the program, there is essentially no greater revenues for the producers on old oil, but over some period of time, like four or five years, that windfall profits tax will phase out.

That means an old oil producer knows that while he only gets $5.25 today, he invests in a tertiary recovery project or some other more expensive technique, when it comes on line two or three years from now the windfall profits tax will have decreased to the point where that will be economic.

MORE

Q Mr. Zausner, so you are promising them increased profits, but on a somewhat delayed basis?

MR. ZAUSNER: Not necessarily increased profits. What we are promising them is what would seem to be increased revenues, which they are going to have to spend at increased rates to recover the -- in other words, yes, their revenue per barrel will be higher but so will be their cost of production per barrel.

Q What percentage of plowback will you credit against the windfall profits tax?

MR. ZARB: That is a point to be worked out with Congress, and it depends a good deal on whether or not they go along with the excise tax. If they implement the $2 excise tax, then they reduce the base and we can talk about a different size of plowback. If they don't do that, then we are dealing with a bigger pool of money, and obviously the plowback has to be more restrictive.

Q Mr. Zarb, this really still has so many controls on it and so many ifs and so many delays. I am questioning if this is really going to be something that the oil men will buy.

MR. ZARB: Well, it was not constructed with that specifically in mind. (Laughter) I didn't mean that skeptically. It was designed in a way that we think the economics would be so carefully structured as to incentivize enough production to ensure that we get the conservation effect we want and to be absolutely certain that nobody has excessive profitability during that period.

Will it do the job? We think it will. We can make everybody happy? Obviously not.

Q Mr. Zarb, how would you calculate the return on equity at the end of this decontrol period? Will it rise from its current level, which I understand is higher in the oil industry than the average industry?

MR. ZARB: We are going to have a detailed briefing this afternoon over at FEA, and we will have those numbers put together.

MORE

I want to go back to what our original principles were, right along with this whole equation, to be sure that we have a sufficient return on invested capital, so that we do achieve independence and have the invested capital required to do it; second, to be sure that there is no excess profitability by any unit of the energy business while we are doing it; and third, to be as fair as we can to all sectors, including the consumer. This seems to touch all of those bases and have all of the balance possible in a program.

Q Mr. Zarb, when the President came out a little while ago to read his statement, one rather significant change that he made in it from that as originally drafted was it said that "If the Congress does not go along with my plan, my only alternative will be to veto an extension of the oil price control law," and when he came out just now he said, "One alternative would be to veto it."

Can we take this as a softening of his threat to veto an extension if they don't accept his plan?

MR. ZARB: I think you can take it as a recognition that the President never does talk about specifically his veto intentions until he sees the form and formula of a bill that hits his desk, and he just never comes down on a specific veto issue like that until he has looked at it.

MORE

Q He had it in this earlier statement. Did something happen in the meeting with the Congressional leaders this morning to make him rephrase?

MR. ZARB: No. I think he took the statement that was written for him and put it in his own words, and he has always taken the position until he sees all of the specifics of a bill on his desk, he never talks about veto or no veto.

Q Are you ready to wheel and deal?

Q Excuse me. Let me pursue that.

This statement was issued by the President, and it says he will veto an extension. When he came out here, he clearly retreated from that position. Are you denying that?

MR. ZARB: No. I said he took a statement that had been drafted and had gone through several drafts. He looked at it before in the context of his own remarks here this morning and he put both his own thoughts and his own words in his own words.

Q You are not submitting this to the Congress a take it or leave it?

Q This wasn't a draft when we got it. This was a final statement put out by the White House Press Office as a statement by the President, so he had looked at this one also.

MR. ZARB: What is the question?

Q Then when he came out, he changed it.

MR. ZARB: Right.

Q Instead of the flatly "I am going to veto it," he said, "I might" or this is one possibility. We are asking what happened between the time this statement was put out by the President and the time the President came out and read the different statement.

MR. ZARB: There was nothing that I perceived in the meeting with the leaders -- and I was there for the full time -- or subsequent to that meeting which prompted him to make a judgment. As he read over the statement in its last form and made his statement, he put it in his own words with his own thoughts, and I think that that is what carries. Now, I cannot read anything Machiavellian there.

MORE

Q Is your posture that this is a take-it-or-leave-it proposition, this is our plan and we are going with this, or is rather your posture that we are putting this on the table and we will see if we can come up with something that we can both agree on by the end of the month?

MR. ZARB: Well, we don't have really until the end of the month, and the clock is running so fast now that we are running out of time to come up with any kind of alternative to expiration.

I would say that the President has put forth a compromise that he really believes is an extreme compromise from his current position, as far as he could go, given the fact that he needs to have maximum conservation and maximum production.

You have got two major items that you could fuss with in terms of the so-called compromise. One is time elongation or stretching it out even further. The other is doing the cap. If you go below the $13.50 level, you begin to reduce the conservation effect calculated into our savings between now and 1977. It is a zero sum game.

For every reduction you have, you are giving up X number of barrels of conservation. If you elongate, you have the same net effect in terms of the timetable for incentivizing in additional production and you also reduce your conservation effect. So the President has gone a great distance and I would certainly not agree with the way you phrase this business of having it out on the table for give-and-take ---

Q Mr. Zarb, what would be the impact on the consumer price index in the three years that are covered; that is, the remainder of 1975, 1976 and 1977?

MR. ZARB: The 25-month inflation impact statement had some numbers in it which you already have. They would be lesser impact than that. We don't have the final numbers calculated for this morning, but we will have them this week.

The CPI impact will be a lesser one than the one that was in the 25-month program which was published three months ago.

Q Mr. Zarb, can you tell us what caused the Administration to change its attitude toward prices for new oil in the last couple of months when you were opposing a court decision which would have required you to do it, which you successfully won on appeal, and how you are coming forth to do the same thing on an earlier court decision?

MORE

MR. ZARB: Give me specifically what you mean. You are talking about the cap ceiling?

Q Yes.

MR. ZARB: Well, there was a considerable amount of interest on that question with respect to the Congress. When we looked at the numbers substantively in 1975 dollars and calculated the conservation effect plus the incentive effects that we wanted to have from these increases, we calculated that they could be achieved at these levels with a $13.50 stop point in 1975 dollars.

Given that and given the fact that the OPEC nations have been talking the way they have and the general concerns articulated by the Congress, it was our belief that it would satisfy our needs and at the same time preclude the ability of OPEC nations to move our prices based upon their own moves.

Q Mr. Zarb, the statement does not make clear what happens after January 1978. Are you purposefully leaving that open-ended?

MR. ZARB: Well, in all honesty we could calculate that at the end of 1978 and the way this will be written is that all controls will be off, including the cap, but you and I both know that between now and then the Congress and others will have an opportunity to look at the world of energy and the world energy price situation and make other judgments.

At the moment, we are shooting for a January 1978 complete return to the non-controlled situation.

Q Mr. Zarb, how do you make sure that the people who have all this expenditure for higher prices on oil, that they are going to be the same individuals who get the tax rebate? Maybe that is a stupid question but I want to know if there are some people who pay out the expense and won't get the rebate.

MR. ZARB: Well, the way it was set originally everybody would get a rebate, and the calculations were made again that those in the middle income and lower areas would achieve what we calculated to be a higher rebate than their actual increasing cost recognizing that the last two years of oil inflation have hurt those people more than anybody else, particularly those who were on a non-indexed fixed income.

Q But everybody who pays it out will get the rebate?

MR. ZARB: Yes, ma'am.

Q One question. If the Congress would pass a phased decontrolled program similar to the one you outlined, and they took no other action, either on a windfall profits tax or on a rebate of payment by consumers, what would your reaction to that be as far as the economy is concerned? That is a possibility, isn't it?

MR. ZARB: When you say from the standpoint of the economy, you are again looking at a two and a half year phasing program which the Nation could stand. Your question was what would my reaction be and it would be absolute disbelief.

We already have put forth a program where if enacted we could be returning dollars to the American people right now today, both from the tariff and from that excise tax which would have followed the tariff. That is over a billion dollars right now, since February 1.

Q Are you still talking about an excise tax on windfall profits tax?

MR. ZARB: Yes, ma'am.

Q Starts in January, or starts right now?

MR. ZARB: As the excise tax went in it could be made retroactive to the most appropriate point and you know that that is going to depend upon how the Congress finally comes down on plowback and a whole host of other things.

In this business you know it is a little extraordinary. We don't send up a bill on the tax legislation. We go up and talk about a principle and an intent and what we try to accomplish, and then we work it out with Ways and Means.

Q You cannot get this tax legislation in two weeks, can you?

MR. ZARB: The excise tax, incidentally, and some form of return mechanism, could be done in two weeks if that was the mood of the people concerned. Excise tax is very straightforward. I would write that in about two sentences.

MORE

Q January or beginning right now?

MR. ZARB: Again, it would depend upon excise taxes and the extent to which windfall had a plowback or didn't have a plowback, and I really haven't focused on that hoping that we worked that out with the Ways and Means.

THE PRESS: Thank you.

END (AT 12:07 P.M. EDT)

File

94TH CONGRESS
1ST SESSION

# S. 1849

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IN THE HOUSE OF REPRESENTATIVES

JULY 16, 1975

Ordered to be printed as passed

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# AN ACT

To extend the Emergency Petroleum Allocation Act.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

## TITLE I

### SHORT TITLE

SEC. 101. This title may be cited as the "Emergency Petroleum Allocation Extension Act of 1975".

### EXTENSION OF MANDATORY ALLOCATION PROGRAM

SEC. 102. Section 4(g)(1) of the Emergency Petroleum Allocation Act of 1973 is amended by striking out "August 31, 1975," wherever it appears and inserting in lieu thereof "March 1, 1976,".

I—O

## TITLE II

SEC. 201. This title may be cited as the "Coal Conversion Extension Act of 1975".

SEC. 202. Section 2 (f) (1) of the Energy Supply and Environmental Coordination Act of 1974 is amended by striking "June 30, 1975" and inserting "December 31, 1975".

SEC. 203. Section 11 (c) (2) of the Energy Supply and Environmental Coordination Act of 1974 is amended by adding the following new subparagraph:

"(E) Price trends and related developments for coal and for other major energy sources which are not subject to direct price regulation at any level by the United States Government. As soon as practicable after the date of enactment of this subparagraph and at such times thereafter as he deems appropriate, the Federal Energy Administrator, after consultation with such other persons and agencies as he deems appropriate, shall provide an assessment of the re-



lationship between price trends and related developments for energy sources covered by this subparagraph and energy policies, including any recommendations he may have in connection with such assessment.".

Passed the Senate July 15 (legislative day, July 10), 1975.

Attest: FRANCIS R. VALEO,

*Secretary.*

94TH CONGRESS
1ST SESSION

# S. 1849

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# AN ACT

To extend the Emergency Petroleum Allocation Act.

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IN THE HOUSE OF REPRESENTATIVES

JULY 16, 1975

Ordered to be printed as passed

File

FOR IMMEDIATE RELEASE JULY 25, 1975

Office of the White House Press Secretary

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THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

In the effort to break the deadlock on energy legislation prior to the August Congressional recess, I am prepared to compromise on the critical issue of oil decontrol. I will submit to the Congress later today my second Administrative decontrol program.

This Nation desperately needs cooperation, not confrontation,on the critical energy issue. The new compromise decontrol plan I propose will answer the legitimate concerns raised by Members of the Congress during the lengthy discussions which have been held on this problem.

This plan will gradually phase out price controls over a 39 month period -- through November 30, 1978. As part of the decontrol plan, a price ceiling of $11.50 per barrel will be imposed on all domestically produced oil.

Although this represents a rollback on all current uncontrolled oil prices, the $11.50 ceiling will gradually increase by five cents per month over the length of the program. However, this ceiling will assure that future increases in the price of imported oil will not affect our domestic market prices.

This plan is a critical first step in reversing our growing dependence on foreign oil. Combined with "windfall profits" tax on oil companies and rebates of energy taxes to the American people, this plan will not hinder our economic recovery nor raise prices during 1975. It will not allow unfair gains or produce undue hardships.

After Congress rejected the 30 month decontrol plan I submitted last week, I was faced with two choices: to either veto the proposed extension of price controls scheduled to expire August 31 or seek a compromise with the Congress.

I urge the Congress to accept this program and simultaneously enact a simple three month extension of the law. To achieve energy independence, the Congress and the President must work together on this and other parts of my comprehensive energy program. I urge the Congress to accept this compromise so that we can get on with the solution of this most pressing problem.

# # #

FILE

FOR IMMEDIATE RELEASE July 25, 1975

Office of the White House Press Secretary

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THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S COMPROMISE OIL DECONTROL PLAN

THE PRESIDENT'S ANNOUNCEMENT

The President today announced a new compromise plan to gradually decontrol the price of old oil (oil now under federal price controls) over a 39-month period. In addition, the President announced for the same period a ceiling on the price of all uncontrolled domestic oil (other than from wells which produce less than 10 barrels per day which are currently exempted from controls) of approximately $11.50, increasing at $.05 per month beginning October 1, 1975.

The President also called for enactment of energy taxes including a windfall profits tax (with appropriate plowback provisions) and a 3 month extension of the Emergency Petroleum Allocation Act to implement the decontrol plan. The energy taxes collected would be rebated to each energy consumer. These actions will result in substantial energy savings, provide an incentive for expanding domestic production, and ultimately remove a complex and counter-productive set of regulations.

Under the President's plan, imports will be reduced and prices will increase gradually. Phased decontrol will thus not impede economic recovery.

BACKGROUND

- The price of old oil is currently controlled at an average of about $5.25 per barrel, while the average price of new domestic oil is now uncontrolled and is about $12.50
- Controlled oil currently represents about 60 percent of domestic oil production. New, released, and stripper well oil account for the remainder.
- Domestic oil production has been declining since 1970 (it is down 11% since early 1973) and is now about 8.4 million barrels per day (MMB/D), a decline of more than 500,000 barrels per day from last year (see chart 1).
- Imports are predicted to average about 6.5 million B/D, but are expected to rise to up to 7 MB/D by the end of this year, which is about 40% of domestic consumption.
- Imports are expected to grow to an average of more than 7.5 MMB/D in 1977, if no action is taken to reduce demand or increase supply. The added imports in the next two years are expected to come mainly from Arab nations and could double our vulnerability to an embargo (see chart 2).

more

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- The Emergency Petroleum Allocation Act of 1973, which requires the control of prices and distribution of oil expires on August 31, 1975.

- None of the measures requested by the President almost six months ago in his State of the Union Address has been enacted by the Congress.

- The President originally proposed in his State of the Union Address immediate and total decontrol in April, 1975. In response to concerns expressed by some Members of Congress, on April 30, 1975, the President directed FEA to hold public hearings on a phased decontrol plan in May.

- The President submitted a 30-month decontrol plan to the Congress on July 14, 1975, which also contained a $13.50 per barrel ceiling on domestic oil. The 30-month plan was disapproved by the House of Representatives on July 22.

- Under provisions of the Emergency Petroleum Allocation Act, either House of Congress has five working days in which to disapprove a decontrol plan by majority vote.

OBJECTIVES OF THE PLAN

The plan announced by the President is designed to meet the following objectives:

- Achieve a major reduction in imports by providing an incentive to increase domestic production and by cutting demand through increased conservation.

- Reduce the power of foreign oil cartels to control the prices Americans pay for energy.

- Provide a compromise decontrol plan acceptable to the Congress.

- Remove over a 39-month period the complex, counter-productive, and administratively burdensome government regulations.

- Eliminate excessive oil company profits and minimize consumer and economic impact by rebating energy taxes.

PRINCIPAL ELEMENTS OF THE PLAN

Today's proposal by the President would gradually remove price controls from all currently controlled oil over a 39-month period beginning September 1 of this year and ending in November, 1978. Under this plan, the amount of oil under controls is decreased by an additional 1.5 percent per month of a decontrol base production level (which is the average monthly production of old oil during April, May, and June of this year) for the first year beginning September 1, 1975, 2.5 percent per month for the second year; and 3.5 percent per month for the remaining 15 months.

The 39-month ceiling on prices for domestic crude oil proposed by the President would be equal to the old oil ceiling price plus $6.25 per barrel, for a total of approximately $11.50 per barrel.

Prices of domestic oil produced from stripper wells -- wells producing less than 10 barrels per day -- are not now controlled nor would they be under the President's proposal.

The President also announced that along with the decontrol plan, he would urge the Congress to enact his proposed energy taxes including a windfall profits tax with appropriate plow-back provisions and to extend the Allocation Act with appropriate modifications to cover this 39-month decontrol period.

The President also called upon the Congress to enact the other critical conservation, domestic supply, and emergency standby measures which were included in his State of the Union proposals of January 15, 1975.

IMPACT OF THE PLAN

- On prices:

  The President's phased decontrol plan will increase the average petroleum product price (such as gasoline) by a cumulative amount of approximately:

| End of | |
|---|---|
| 1975 - | -(.5-1.0)¢/gallon |
| 1977 - | 2.0¢/gallon |
| 1978 - | 5- 6¢/gallon |

- On Import Savings:

| Average for year | Phased decontrol - alone | Phased decontrol, existing $2 import fee & other proposals by President |
|---|---|---|
| 1975 | 20,000 | 270,000 |
| 1977 | 190,000 | 1,240,000 |
| 1978 | 515,000 | 1,770,000 |

more

- Impact of Compromise on Prices

| Timing of Decontrol | Cap | Cummulative Prices Increases, as of 4th Quarter | | |
|---|---|---|---|---|
| | | 1975 | 1977 | 1978 |
| Immediate(1) | None | 6-7¢/gal | -- | -- |
| 30 Month(2) | $13.50 | 0.5¢/gal | 4.5 | 5.6 |
| 39 Months(3) | 11.50 | -(.5-1.0)/gal(4) | 2.0 | 5.6 |

(1) Proposed on January 15, 1975

(2) Proposed on July 14, 1975

(3) Proposed on July 25, 1975

(4) Decrease from current price levels

## CHART 1

### DOMESTIC PRODUCTION OF CRUDE OIL

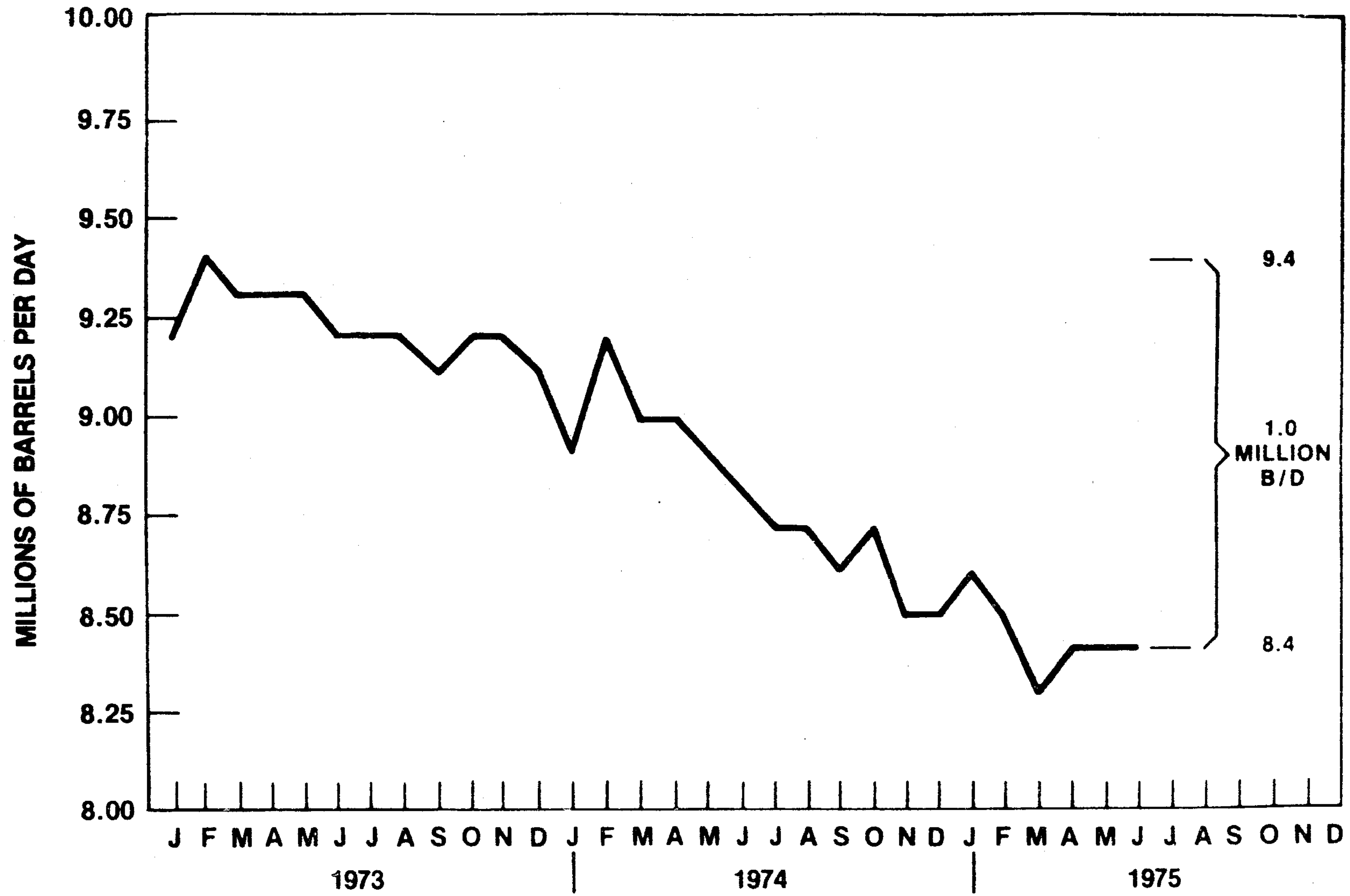
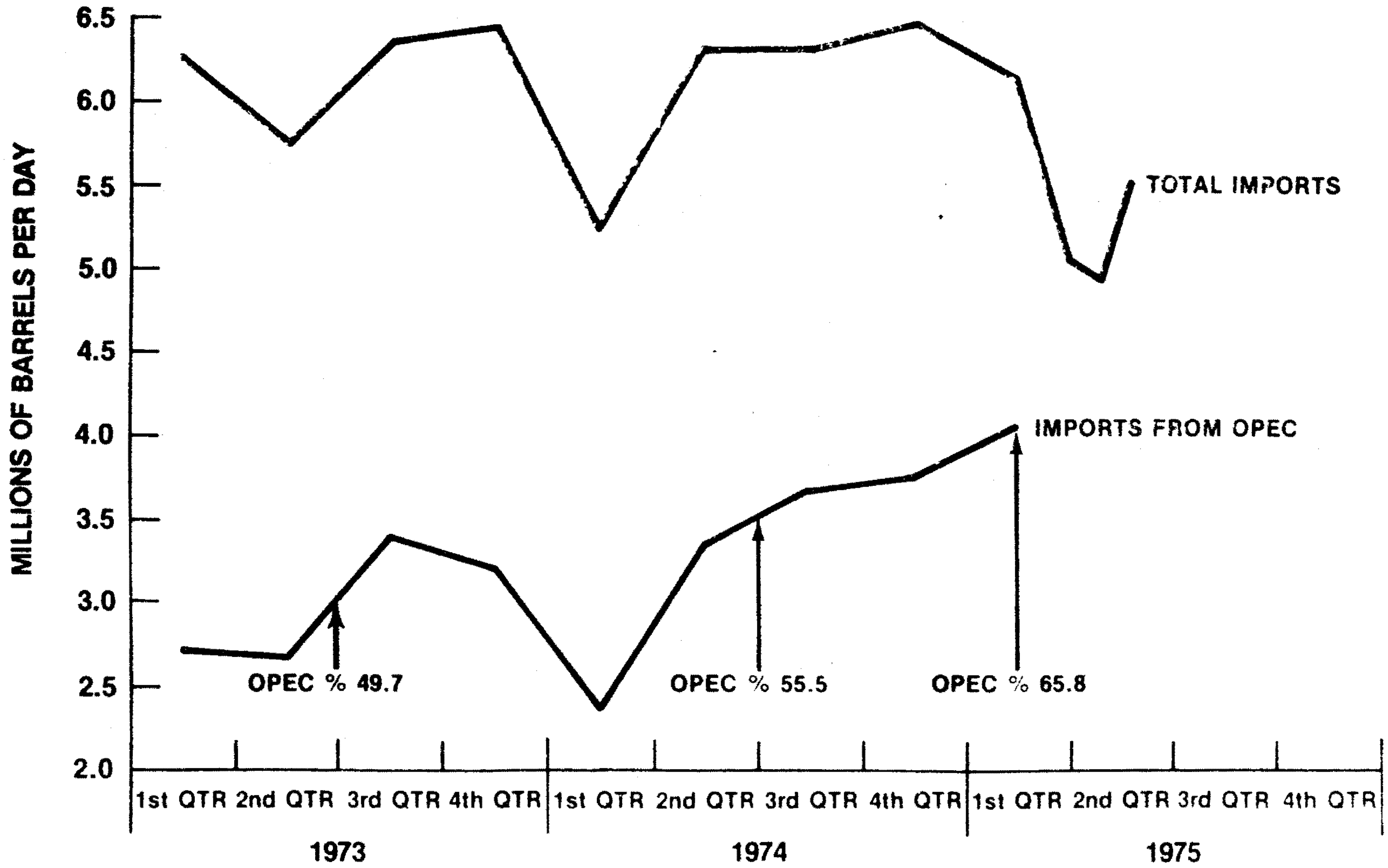


**CHART 2**

## IMPORTS OF CRUDE OIL AND PETROLEUM PRODUCTS



FOR IMMEDIATE RELEASE JULY 25, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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THE WHITE HOUSE

PRESS CONFERENCE
OF
FRANK ZARB
ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION
AND
ALAN GREENSPAN
DIRECTOR OF THE
COUNCIL OF ECONOMIC ADVISERS

THE BRIEFING ROOM

10:30 A.M. EDT

MR. NESSEN: Frank and Alan have to go to the Hill and be there by 11:00, so let's start and go for 20 minutes. As soon as this is over, I will have the captive nations' statement for you for automatic release at 11:00.

Q Could you start by going over the new price projection you just gave several people?

MR. ZARB: With your permission, as is not normally my custom, I will make a brief statement and then I will do that.

The President will today send forward a modified decontrol program to the Congress, under our current statute, which will have it before the Congress for five days and simple one-House majority can defeat it. The program continues to provide the principles that the President articulated -- conservation of the short-term, leading to independence and fairness and equity to people, the three major principles we have stuck with since January. It does have an effect of stretching out some of the conservation elements we had counted on one additional year.

The program from a substantive and programmatic standpoint seems to us to answer all of the objections raised by some of the critics in the oil decontrol question over the last two weeks.

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They raised the question of effects on the economy during a recovery period. They raise the question of price increases while acknowledging they must occur, should occur, over a gradual period so both the individual consumer and the industrial consumer could readily adjust to it. They raise the objection that the returns to the producers should be moderated to preclude windfall as we provide a sufficient revenue for full productivity.

Now on the other side, the industry and the energy requirements that we must at some point end the Federal control system, this answers that in that it ends in 39 months; secondly, that the industrial community, be it independent or not, should have sufficient return on invested capital to fund our maximum capacity as a Nation.

These provisions in this program answer all those programmatic and substantive issues. It provides as follows:

Old oil will decontrol over a 39-month period. During the first year of operation it will go at a rate of 1-1/2 percent per month, second year 2-1/2 percent per month, third year 3-1/2 percent a month, until it actually finishes in 39 months out and as complete controls expire.

It provides for a ceiling on released oil of $11.50, which, as you recall, was the number we originally calculated as the return to the producer in our 30-month program.

It then has that $11.50 ceiling escalate up at the rate of a 5-cent per month, which brings us to about $13.45 in 39 months and thereby provides the gradualism both with respect to this period of recovery and with respect to the total stretch-out to accommodate adjustments that the consumers require.

We have talked to Chairman Ullman and Chairman Long about a windfall tax program. We are prepared to support a windfall tax program associated with this that would tax the increases of revenues brought on by the released old oil. That would provide an acceptable plow-back that all could agree to, and at the same time it would phase out over a period of three to six years, whatever the two committees finally agreed to.

We spent considerable time in the last week, not only talking about the substantive issues of decontrol and those who would object and why, and where there seem to be reasons that fit into our energy needs and accommodated them, but also the whole notion of windfall and how we could go forward on that track.

In summary, what I am saying is of all the arguments I have heard that were substantive, in the last two weeks, this program appears to answer each and every one of them.

Q Frank, do you have confidence that there is consensus now in the Congress of this program?

MR. ZARB: Peter, I just don't know. I do know that the many, many Democrats who worked with us over the weekend and the early part of this week, until, very often, late in the night, including people such as John Dingell and Al Ullman and many of the people who have been involved, like Jim Wright and Congressman Worth, that during our discussions we raised all of the parameters of problem and solution and this faces squarely those particular issues.

Whether that represents a sufficient consensus to have this thing effected, I am not sure. I do say this is our chance, I think, to demonstrate to the American people that in this business of energy their President and their Congressmen come together and effect an orderly and acceptable solution.

Q Could I follow that by asking whether they, the Congressional Democrats, proposed some features of this?

MR. ZARB: Yes.

Q What about the $2 import fee, does that stay on?

MR. ZARB: That stays on.

Q Can you give us the new examples of gasoline price increases?

MR. ZARB: It is shown in your fact sheet, but I want to caution you a little bit. In 1975 we show a real reduction of about a half-penny a gallon because of the lowering of the cap and the slow start-up of decontrol.

Now, I don't believe, knowing the marketplace, that that will have the effect of actually lowering the pump price by half a penny or a penny. It will have an impact of stabilizing any increases in that magnitude that might have come this year.

MORE

The other increases are shown to be a 2-cent increase solely related to these provisions. There are other factors that occur in the marketplace that increase that rise, but solely related to decontrol getting up to the 5 to 6-cent level at the end of the period, solely related to this program.

Q What would happen if Congress approved this program, or let it stand, and then did not extend the August 31 date? Would that cause you a problem?

MR. ZARB: There is no likelihood of that. The Congress would like us to extend the August 31 date no matter what we did. If the law expired August 31 there would be no controls at all so that would be completely mooted.

Q Why does he want just a 90-day?

MR. ZARB: The discussions we have had thus far would provide if the Congress accepted this -- and I emphasize this point -- under the law Congress gets a new look every 90 days and has a 5-day period with simple one-House majority to cancel it, so that they have got an insurance policy in terms of being able to re-examine it.

If the Congress does agree to this, they will most likely move to put it in legislative form along with the windfall provisions. If they do that we will have a 39-month extension of the Act or a 36-month extension at that point; thereby all the provisions would happen in parallel and some of them would expire in parallel.

Q Can you be specific about the windfall section? When you talk about appropriate plowback factors, are you talking about what you proposed before or do you have some new dimensions?

MR. ZARB: The discussions we have had thus far have been pretty much around the Senate Finance Committee model that they have been working on. And it has a -- and I am going to be general here because it has not been firmed up -- but it has the first year the tax gets to about an 80 or 85 percent level. In other words, 15 or 20 percent remains, and then plowback is somewhere between 20 and 25 percent of that 80 or 85 percent.

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Now I just want to caution you those were very preliminary numbers to generally discuss principles about return to the industry -- what is required to ensure maximum productive use of our resources. I don't want that to be reported as the plan that we have agreed to but you can get a feeling for the general areas which we are discussing.

Now, over the period of four to five or six years, or whatever, that would phase out of existence, so you could see the plowback would become greater perhaps or the 85 percent would go to 80 percent or 60 percent from there on out.

MORE

Q On this same point, were you saying a minute ago that the Administration proposes to apply the windfall profits tax only on revenue, additional revenue, on old oil as that price increases, and not at all on $11.50 oil that is at $11.50 now?

MR. ZARB: That is correct.

Q That is a much more generous proposal than the one the Administration made last winter, is it not?

MR. ZARB: Only to the extent it recognizes a change for depletion. You may recall when we presented that in January we were closer in saying this had been calculated on the basis of existing depletion, that the depletion probably makes the difference, and if you look at the real numbers, they come close.

Q Is this the last chance, if Congress does not buy this plan? Do we get instant decontrol on September 1 or does the President sign some shorter extension of the act?

MR. ZARB: It is my best judgment, based upon everything I know as of this morning, that if the Congress turns this down on whatever basis, that the next probable event is full decontrol as of September 1.

Q How would the money be rebated, the taxes that you raise. How much would it amount to?

MR. ZARB: We have talked to a number of people, including Senate Finance, about this issue, since they now have the House passed bill. We would hope they would get the windfall plus rebate mechanism into this bill.

The basis upon which we start talking is that the available funds, which would include the tariff and ongoing windfall, would be a lot lesser than we were talking about in January.

But, our matrix at that point was to return two-thirds of that money to individuals through the income tax mechanism.

The remaining one-third would be divided in half with half going to State, local and Federal Government, and half going to lowering corporate rates.

It is likely because we have a much lesser collection here -- at least at the moment we have not faced the natural gas question in this bill -- that will be a whole other issue, but that was part of our original calculations, that the Congress might want to readjust the formula in that regard.

We are prepared to have those discussions as soon as they are ready, but that is the program which we put on the table, and it still rests on the table.

MORE

Q Would this rebate replace or negate any need for extension of the current tax cut? Maybe Mr. Greenspan could answer that.

MR. GREENSPAN: Those are two wholly independent issues; that is, the question of the extension of the 1975 tax cut is in no way related to this particular question because, as Frank has pointed out, the President's energy program has always contemplated a return, a restoration of the purchasing power of consumers that would be attendant on increases in oil prices.

In that sense, it is sort of an independent program and a far more broader fiscal policy question will be relevant to the 1975 tax cut extension and will not relate to this issue.

Q Frank, just to be sure I am correct on this, are you suggesting the President will still veto a three-month extension if Congress does not go for this next week?

MR. ZARB: I am not in a position to commit the President. I can only give you my best personal estimate of what will occur in this event. He has said time and time again that he has no intention of simply delaying action for the sake of delay.

There seems to be no calculable reason why we should postpone something for three months when we are not begging to know anything more than we know today. It will only bring us back today three months from now, and in my view that would not be an acceptable solution from the President's standpoint.

We need to face these issues in energy, and every one of them is going to be tough, as everyone has been tough up until now, and postponing them is not a solution. It only makes us more vulnerable over a longer period of time before we finally face up on the hard questions that have to be answered,and this is one of the hardest.

Q I want to be sure on the rebates, Frank. Are you saying you believe it is the mood of the Congress to rebate a higher portion of windfall profits to the consumer?

MR. ZARB: No, I am saying that the President proposed in January that all of the captured monies from this program be returned to the consumer. For the first time, we are getting legislative attention to that issue, and we stay in the same position that we anticipate the energy program standing on its own and all the revenues that accrue to the Treasury by virtue of this energy package be returned to the economy, with a giant share to the consumer, including the tariff.

Q Not to quibble over a penny, but Secretary Simon told a group of reporters this morning he expected this plan would raise gasoline prices by 7 cents a gallon at the end of the period. Is that roughly correct?

MR. ZARB: Peter, he could be correct, give or take some mills. I have given that 7 cent number. The real analytical work shows 5 to 6 cents, and the difference being our early calculations based upon a known $13.50 cap.

That 7 cent number has been washed into these last two iterations, and I have continued to try to stay conservative so when we talk about 5 or 6, I am not going to discount 7.

I think it is unlikely, but we have always moved to the higher end of the range because other people do studies and calculate numbers differently and sometimes they try to demonstrate they are higher than they are.

Q He also said there would be a penny increase this year and 4 cents next year. Is that roughly correct, in your calculations?

MR. ZARB: No, we are talking about the effects of this particular program.

Q He did not talk about the program, but he said the compromise would involve these increases.

MR. ZARB: Not being there to ask how the question was asked, we have said right along there are as you know, in the present industry, these cost banks that stay there because of controls that build up, and we had always anticipated from June until Labor Day there could be a 2 to 5 cent increase.

The effects of this program have the effect of a real reduction of a half a penny or so by the end of the year. I don't believe the market mechanism is going to show that on the pump, but it will have a stabilizing effect on prices and probably will preclude any meaningful increases of this variety or at least up to this amount during that period.

MORE

I am not trying to be cagey, but the market works with lots of different forces on it and I can only tell you the effects of this program.

Q Will you resist in the legislation after the 90-day extension, the 90-day review clause that is in the present law?

MR. ZARB: I would hope to give the industry some stability -- and I am not laying out a new rule at this point -- but it has been my understanding right along once we came to agreement with Congress on a plan we both felt would work, one of the things we both wanted to achieve was to give the Nation some feeling of permanence as to how the energy program was going to work.

Under the circumstances, this program has been so designed so that during this first year of recovery the impacts are modified to give comfort to those who felt they had other concerns.

We did not agree with some of that, but the fact was we really did believe that it was worth a last chance to demonstrate that we can get together and push the energy program forward. And I cannot find anywhere in any of the discussions, including much testimony that Alan and I had in the last two weeks, where substantive issues were raised with this, that this program does not answer them.

There may be other issues but --

Q Mr. Zarb, how close does this program get you to your 1977 goals compared to where you wanted to be last January?

MR. ZARB: It slips a portion of that for about a year -- but I want to be fair on that question as well.

There are two things that occurred. The recession, which was unanticipated, gives us a little different projection as to increases in imports in the next two years, if we did nothing, so rather than being at the two million barrel level we are a little closer to the 1.6 million -- 1.7 million level.

Secondly, we have been able to make some inroads, I think, and will, the way things are structured now and improving what we projected to be our nuclear power capacity unless some things go the wrong way in that area.

MORE

There are a few other things that are happening that we can count on for additional improvement, so while we laid the numbers out for you to show you how much we do slip from 1977 to 1978, so that you can see we can be consistent and honest from press conference to press conference, I believe we are going to make up some of that deficit with some other actions we had not counted on.

Q Frank, I am sorry but I don't understand. Why is the windfall profit going to be allowed in the future where it is not allowed now? In other words, why is the windfall profits tax going to phase out? You are still pumping old oil. It is still a windfall profit. You are just going to allow it?

MR. ZARB: No matter what you do your costs go up, and any existing facility, even if your investment was at a lower rate.

The macro effects of this program are to (a) ultimately come out from under controls so the marketplace within general constraints could apply -- and by 39 months from now hopefully that will be so; secondly, to ensure that a productive industry is allowed sufficient cash flow within the control mechanism to maximize its productive capacity.

At the same time, it precludes the ability to capture some of these profits unless the profitability goes back into American energy sources in American grounds. So you are able to catch it on both sides.

I think that in my discussions with both Chairmen that there is no question but what legislation of that variety can be written and can be passed, so it does work exactly the way we all want it to work.

THE PRESS: Thank you very much.

END (AT 10:55 A.M. EDT)