8:45 AM - Meeting Mike Duval

Thursday, March 20, 1975

On Energy, Regulatoy Reform

~~Mike~~ — Ask Mike to stop in to see me about this

Pls discuss with me

Jerry

(Meeting Mar. 20, 1975, Cannon & Duval)

THE WHITE HOUSE

WASHINGTON

March 10, 1975

MEMORANDUM FOR JIM CANNON

FROM: MIKE DUVAL D

SUBJECT: REGULATORY REFORM

Following up on our meeting Friday, the following is a brief summary of where we stand on this project.

PRESIDENTIAL STATEMENTS

In his address to a Joint Session of Congress on October 8 of last year, the President stated:

> I ask the Congress to establish a National Commission on Regulatory Reform to undertake a long overdue total re-examination of the independent regulatory agencies. It will be a joint effort by the Congress, the Executive Branch and the private sector to identify and eliminate existing Federal rules and regulations that increase costs to the consumer without any good reason in today's economic climate.
>
> ...I will require that all major legislative proposals, regulations and rules emanating from the Executive Branch of the Government will include an Inflation Impact Statement that certifies we have carefully weighed the effect on the Nation. I respectfully request that the Congress require a similar advance Inflation Impact Statement for its own legislative initiatives.

Jim Lynn — can we do that for Cong. Budget, eg. Tax cuts, under Budget Reform Act — eg Health Ins. for unemployed

In the Fact Sheet, issued by the White House concurrently with the State of the Union Address, the President stated that he would resubmit his proposal to create a National Commission on Regulatory Reform.

CURRENT STATUS

The President's efforts to reform the economic regulatory activities of the Federal Government are focused on two fronts:

1. Independent Regulatory Agencies. The President's proposed National Commission is not likely to be enacted by Congress in a form which meets the President's objectives. Although the proposed legislation was introduced in the 93rd Congress, only the Senate held hearings and no bill was reported out of committee in either House.

   The President decided not to push this legislation hard as a part of his State of the Union Address for three reasons: first, if Congress ultimately does act on the Commission, the lead times involved to get the legislation and implement it would result in a final product long after the battle against inflation must be fought and won. Second, the chances of legislative success are very slim and we're likely to get a Commission which could do more harm than good. Third, if Congress does hold hearings and otherwise actively considers creating such a Commission, this will be used as an excuse to delay action on legislation targeted at reform of specific agencies.

   Our Commission bill was submitted by OMB to the 94th Congress but has not been introduced in either House. A somewhat similar bill has been introduced in the House and, in the Senate. Also, Government Operations and Commerce Committee have jointly requested a special rule to create an ad hoc Senate Committee on regulatory reform. It would be funded with $750 million and last eighteen months.

   The President does intend to submit specific regulatory reform legislation covering at least:

   - surface transportation
   - aviation
   - financial institutions
   - Fair Trade Repeal (has already been submitted)
   - Robinson-Patman Repeal

2. Executive Branch Action. The President has signed an Executive Order requiring the Inflation Impact Statement. In addition, OMB has issued a circular which implements this Order. The circular expands the coverage to include all economic impacts, not just inflation. This program is intended to be highly decentralized with the departments establishing specific criteria defining which actions are covered by the Order and the criteria which will be utilized in analyzing these impacts. In addition, the circular clearly deals the Council on Wage Price Stability into the Inflation Impact review.

cc: Dick Dunham
    Jim Cavanaugh

THE WHITE HOUSE

WASHINGTON

March 10, 1975

MEMORANDUM FOR FRANK G. ZARB

FROM: MIKE DUVAL

SUBJECT: LNG - MARAD CONSTRUCTION SUBSIDY

D

I understand that you are thinking of raising the LNG question with the President tomorrow.

As I stated at the ERC meeting, I continue to believe that the cryogenic ship construction subsidy question should be treated separately when this issue is brought before the President. As you know, the maritime subsidy question raises a host of problems which are not covered by any analysis of Export-Import Bank financing or the general economic feasibility and energy policy implications of imported LNG.

It is my recommendation that the Simon Task Force on the Maritime Industry consider the cryogenic shipbuilding subsidy question and that their recommendation be included prior to any Presidential decision.

cc: Bill Seidman
Jim Cannon
Jim Lynn

Pst - Issues - Transportation

THE WHITE HOUSE

WASHINGTON

March 3, 1975

MEMORANDUM FOR: JERRY JONES

FROM: MIKE DUVAL D

SUBJECT: NEW HIGHWAY AND AVIATION LEGISLATION

Following up on your memorandum of February 18, the following coordination has been accomplished and is under way with Congress.

Acting Secretary John Barnum, has visited with Senators Magnuson, Pearson, Randolph and Baker concerning the aviation and highway legislation. In addition, I will be having lunch this week with the head of the majority and minority staff of the Senate Public Works Committee to discuss the highway bill. I have already met with the minority staff leader of the Senate Commerce Committee on Aviation and I discussed it briefly with Senator Cannon.

Barnum also met with Congressman Harsha for a brief meeting on both peices of legislation. In addition, I met with Harsha, Don Clausen and Cliff Enfield (their chief staff man) to discuss the highway and aviation proposals in some detail. At Mr. Harsha's suggestion we have scheduled a detailed briefing on Monday for the Public Works Committee staff which will be conducted by DOT. Also, at Harsha's suggestion I will be meeting with Chairman Jones on Tuesday. We expect to have a brief report for the President by mid-week which describes the Hill reaction to our proposals.

It is, of course, important that Bill Coleman review these proposals prior to their submission. I have talked to Barnum about this and he advises me that Coleman already has been briefed and is studying the proposed legislation.

In terms of timing, the House Public Works Committee could begin hearings on the highway bill as early as the week of March 9. Therefore, I have advised OMB and DOT that we should be prepared to submit the transportation legislation by the end of this week.

There are three potential problem areas which we will monitor closely. First, Republican members of Congress are obviously going to oppose strongly, (1) extension of the Highway Trust Fund only for the Interstate System (they'll want the Trust Fund for all highway construction) and, (2) the proposed general aviation landing fees. Second, Bill Coleman may have some problems with the proposals. Third, there is still strong disagreement between the Hill, DOT and OMB concerning the deregulation proposals.

cc: Jim Cannon
Jim Cavanaugh
Bill Kendall
Vern Loen
Wally Scott

Called Mike 2/19
copy sent to Mike
JHe

THE WHITE HOUSE

WASHINGTON

February 18, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JIM CAVANAUGH

FROM: JERRY H. JONES

SUBJECT: New Highway and Aviation Legislation

The attached memorandum to the President on the above subject has been reviewed and the following notation was made:

> -- A lot of work should be begun immediately with Harsha and others, including Don Clausen of California.

Would you please put together a legislative strategy plan which will implement the President's instructions and submit through the Office of the Staff Secretary.

Thank you.

cc: Don Rumsfeld
Jim Lynn
Jack Marsh

THE PRESIDENT HAS SEEN...

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

INFORMATION

JAN 23 1975

MEMORANDUM FOR THE PRESIDENT

THROUGH: Roy L. Ash

FROM: Walter D. Scott

SUBJECT: New Aviation and Highway Legislation

Following discussions with you in early December concerning legislation for the extension and modification of the Federal aviation and highway programs, agreement has been reached on the major provisions of these proposals. DOT is currently drafting the necessary legislation. Key aspects of these proposals will be highlighted in your Budget Message. In addition, we recommend that the legislation be transmitted with a short, written Presidential Transportation Message within three weeks.

The aviation and highway proposals were developed with the objectives of:

--Increasing the efficiency and effectiveness of these programs by focusing Federal financing and oversight on national transportation system requirements while increasing state and local direction and flexibility.

--Dealing equitably with the complex trust fund/user charge policy issues in both programs by better matching dedicated revenues, beneficiaries, and program costs while proposing a straightforward solution to the deferred funds problem.

--Ensuring that the Administration is a full partner in Congressional deliberations by proposing programs with reasonable Congressional and interest group support.

The aviation legislation will provide contract authority to fund the Airport Grant Program at $350 million per year and to extend authorizations for the FAA Airway Facilities Program at $250 million per year through 1978. Under this proposal, most airport grant funding will be shifted from individual Federal project approval to a formula distribution system.

Federal aviation operating expenses will be funded from the aviation trust fund, and user fees will be adjusted by instituting general aviation landing fees (requested in the last Congress), decreasing the air carrier ticket tax on domestic passengers, and increasing the international departure tax. Unobligated grant funds of $0.2 billion will be allowed to lapse. Attachment A provides more detail on this proposal.

The highway legislation will provide $22.7 billion of contract authority for the Federal-aid highway program for 1977 through 1980, and extend the highway trust fund through 1980. Construction of the interstate system which will be financed from the trust fund, will be expedited by increasing funding levels and focusing efforts on completion of unfinished segments critical to national intercity connectivity. The non-interstate programs, to be financed from general funds, will be consolidated from over 30 restrictive categorical grants into three broad programs with provisions for "off-system" funding. Trust fund receipts will be reduced to the level of the proposed interstate system expenditures by shifting 2¢ of the gas tax into the general fund and permitting states to preempt 1¢ of all motor fuel taxes ($1.2 billion) in 1978. In addition, the $11 billion of deferred highway funds will be rescinded or exhausted by not requesting additional funds for 1976 and the transitional budget period. Attachment B provides more detail on this proposal.

Although these initiatives contain many provisions that will be supported by certain interest groups, the proposals for eliminating deferred funds and reducing the scope of the highway trust fund will face broad and substantial resistance. Authorizations for these programs have come from user financed trust funds, and in most cases are already apportioned to State and local bodies. We have reviewed many alternatives for reducing or eliminating unobligated balances, and have reluctantly concluded that there is no painless way of dealing with this problem. The straightforward approach recommended in these proposals essentially calls for "wiping the slate clean" for these programs. Likewise, it appears necessary to limit highway trust fund receipts and restrict its program to elements with high national interest if we are to get long term highway funding levels consistent with our fiscal objectives and other program priorities.

Overall, the proposals offer an opportunity to substantially increase local direction and management of these major grant programs while focusing the Federal involvement on projects of national interest. Most states, local bodies, and user groups will strongly support these efforts to eliminate unnecessary Federal involvement in and increase the efficiency and effectiveness of these grant programs.

Aviation Legislation

...Key objectives of legislation are to:

--Reduce Federal involvement in local airport development and increase local flexibility in use of funds.

--Establish principle of user responsibility for financing a portion of airway system operating costs.

--Allocate user fees more equitably among aviation system users.

--Stop the growth in aviation trust fund "surplus" and eliminate unobligated airport program funds.

--Continue funding Federal airway capital development at present levels.

...Airport grant provisions would authorize a three-year program which would:

--Provide for direct formula grants to air carrier airports ($50 per air carrier departure with a $25,000 annual minimum per airport) to replace present project approval program. ($260M).

--Expand projects eligible for funding to include development of passenger and baggage handling facilities (but not terminals per se) and eliminate local matching requirements.

--Establish a $50M annual discretionary capital assistance and planning grant program to meet special requirements of national priority at air carrier and general aviation reliever airports, not adequately provided for through formula funding.

--Allocate general aviation grants on a formula basis to the states with gradual shift of program management and funding responsibilities to the states. In 1978, the last year of this transition, states would fund the program from preempted Federal aviation gas tax revenues.

--Allow $194M in unobligated airport grant funds to lapse on June 30, 1975.

--Overall increase the annual new obligational authority for the airport grant program from the present $325M to $350M while reducing the Federal involvement (and Federal grant administrative staff).

...Aviation fee structure would be modified to more equitably match fees with the burden different users place on the system by:

--Reducing the domestic passenger ticket tax from 8% to 7% ($110M annual reduction).

--Raising the international enplanement fee from $3 to $5 ($30M annual increase).

--Instituting new general aviation landing fees of $5 and $10 at airports with FAA traffic control towers as proposed in the Budget Restraint Message ($80M annual increase).

...Airway facility authorizations for Federally owned and operated traffic control and navigation equipment would be continued for three years at the present $250M annual level.

...Trust funding will be extended to include the $430M annual maintenance costs for airway facilities, currently funded from the general fund.

...Aviation interest group reaction to the proposals will be mixed, but probably generally positive.

--Airport operators (includes many cities) will strongly support the direct formula grants. They will push for a larger overall program.

--Air carriers will support the domestic passenger tax reduction and most of the formula grant changes. They will push for a larger tax decrease.

--General aviation interests will support the general aviation airport proposals, but will strongly oppose landing fees.

--State aviation officials will support most of the airport grant proposals.

--All groups will oppose lapsing of airport grant funds and the opening of the trust fund for operating expenditures.

...Congressional reaction will probably also be mixed.

--House Public Works and Transportation Committee will be handling aviation legislation for first time. Anticipate positive reaction to formula grant proposals.

--Senate Commerce Committee will probably resist additional delegation to the states and trust fund changes.

--Ways and Means reaction on revenue proposal is uncertain. Will be substantial air carrier pressure to move legislation.

Attachment B

Highway Legislation

...Key objectives of the legislation are to:

--Increase the efficiency and effectiveness of highway assistance programs by providing additional state flexibility for non-interstate highway system while focusing Federal efforts on the critical national aspects of the Interstate system.

--Strike a long term balance between user receipts and trust funded programs at a level consistent with Administration's long term funding priorities.

--Provide a proposal for dealing with the immediate problem of the $11 billion Federal-aid deferral in a manner consistent with the Administration's fiscal objectives.

...Federal-aid highway Interstate assistance, financed from the trust fund, would increase significantly through 1980 while Non-Interstate assistance, financed from the general fund, would be held at the 1976 level.

	Program Level (Billions of Dollars)					
	1975	1976	1977	1978	1979	1980
TOTAL	4.6	5.2	5.4	5.6	5.8	5.9
Interstate (Trust Fund)	(2.5)	(3.0)	(3.2)	(3.4)	(3.6)	(3.7)
Non-Interstate (General Fund)	(2.1)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)

...State preemption of 1¢ per gallon of the Federal motor fuel tax would be permitted in 1978. The potential annual $1.2 billion in added state revenues would provide a substantial infusion of funds for local highway construction and maintenance problems.

...Interstate funds would be focused on unfinished segments necessary to national intercity connectivity by apportioning some of the interstate funds on the basis of unfinished critical links.

...Four broad program areas (Interstate, Rural and small urban, Urbanized, and Safety) would replace the present maze of categorical grants. Funding would be permitted from these program areas for roads not on the Interstate, Primary or Secondary Systems.

...Trust fund receipts would be reduced by the shift of 2¢ per gallon of gas tax receipts into the general fund and the local 1¢ per gallon preemption of motor fuel taxes. Receipts would equal the proposed Interstate System program level so that trust fund receipts and expenditures would be balanced.

...Deferred funds would be eliminated by rescinding the $3.2 billion "advanced" year Interstate allocation, requesting no additional Federal-aid authorizations for 1976 and the transitional period, and rescinding all unobligated balances as of September 30, 1976.

...Interest groups will generally support the revised program structure and the increases for the Interstate System.

...States should strongly support provisions providing for state motor fuel tax preemption as this will substantially increase revenues and local flexibility.

...Highway interest groups will strongly oppose rescission and trust fund modification.

...Congressional Committees will undoubtedly strongly oppose many of these provisions, particularly the rescission proposals. Substantial negotiations to reach a viable solution to the deferral and long term trust funding problems should be anticipated.

THE WHITE HOUSE

WASHINGTON

March 12, 1975

MEMORANDUM FOR DONALD RUMSFELD

FROM: MIKE DUVAL

SUBJECT: MICROWAVE LANDING SYSTEM - INQUIRY BY CONGRESSMAN FRENZEL

On January 22, you wrote to Bill Frenzel and advised him that the Domestic Council would look into an issue he raised concerning FAA's decision on a microwave landing system.

The issue boils down to whether or not FAA commits itself to a landing system based on scanning beam or Doppler technology. This is a major decision involving four years of intensive research, two highly competitive technologies, both with major industry support, and a split between the U.S. approach (scanning beam) and the British (Doppler). Frenzel was concerned that one of his constituent companies, Honeywell, would not get objective evaluation by FAA because of "...an apparent tilt against the Doppler equipment" by the Federal officials.

Pursuant to your instructions to follow up on this, I raised the matter with John Barnum. The U.S. decision -- in favor of the scanning beam technology -- was made in late February by an intragovernmental task force consisting of FAA, DOT, DOD and NASA. Barnum's memorandum, which is attached, lays out in detail how this decision was made and I concur in his assessment that it was a fair process.

Although the FAA decision was announced over two weeks ago, there has been surprisingly little reaction from the Congress, industry or the British. I tried to call Congressman Frenzel to discuss the decision with him, but so far, ~~he has not~~ returned my call.

My recommendation is that no further action by the White House. I will continue to monitor the situation.

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

February 18, 1975

H — Call David Israel (see p 2) - I want to talk w/ him. D

Do Monday

MEMORANDUM FOR: Mr. Michael Raoul-Duval
Associate Director
Domestic Council

SUBJECT: Microwave Landing System Development Program

This is in response to your memorandum of February 8 concerning the Microwave Landing System (MLS) selection process now underway.

The MLS program is a joint undertaking of DOT, DOD, and NASA to develop a long-term successor to the Instrument Landing System (ILS) currently in use at over 300 U.S. airports to provide approach and landing guidance in poor weather. Executive leadership for this program has been the responsibility of the Federal Aviation Administration.

This program, underway since 1971, is now completing the second phase of a three-phase effort. In this phase, engineering feasibility models of two different beam-forming techniques -- scanning beam and Doppler -- were constructed, tested, and analyzed. Prior to entering the third phase which involves the construction of pre-production models, it is necessary to select a single technique. This technique will also be the one forwarded by the U.S. for consideration as a worldwide standard by the International Civil Aviation Organization (ICAO).

A recommendation for the U.S. technique selection was made in late December 1974 by a Steering Committee including technical experts of the FAA, DOT, DOD, and NASA. This recommendation, the result of a four-month intensive analysis effort, was subsequently approved by an independent MLS Advisory Committee consisting of aviation experts both inside and outside the U. S. Government. Final review and decision on the technique selection is the responsibility of a four-man MLS Executive Committee representing FAA, DOT, DOD, and NASA, with each representative required to have the concurrence of his organization. This final selection action by the Executive Committee has been underway since early January and is scheduled for completion by February 19 or 20.

What decision ??

The above several-level recommendation and approval process, agreed upon by FAA, DOT, DOD, and NASA, provides for a very full and objective review of the two contending techniques and of all related considerations. I believe you can be assured that a complete review and appropriate decision will be made, and I see no reason to consider any change to the Executive Committee efforts in progress.

You should be aware that there are two major electronics manufacturers (or groupings of manufacturers) associated with each technique. Their interest in the selection is very high and has been expressed by letters and visits of their senior personnel. The Executive Committee has taken great care to ensure that they had a full opportunity to make their positions and concerns available for consideration.

The Chairman of the Executive Committee is David Israel, Deputy Associate Administrator for Engineering and Development, of the FAA. He will be pleased to provide you directly with additional background and details as you may deem necessary.

426

8183

John L. [illegible]

THE WHITE HOUSE

WASHINGTON

DECISION

March 10, 1975

Fub

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: TRANSFER OF THE NAVAL PETROLEUM RESERVES FROM NAVY TO INTERIOR

This memo is to ask whether you have changed your position on the matter of transferring Naval Petroleum Reserves from Navy to Interior.

Congressman Melcher is the sponsor of a bill (H.R. 49) recently reported favorably by his subcommittee of the House Interior Committee which would transfer responsibility for the Naval Petroleum Reserves from Navy to Interior.

Congressmen Melcher and Bell have stated publicly (Tab A) that they have "unofficial" word from the White House that you would be "delighted" to have their bill pass the Congress. Since such a transfer differs from the position taken in your Energy Independence Act, the Melcher-Bell statement has led to questions from Navy, DOD, and the Congress as to whether you have in fact changed your position.

The matter is particularly urgent because Administration witnesses will appear at Senate Interior Committee hearings tomorrow at 10:00 a.m. and specific questions are expected as to whether you favor transfer of the Reserves to the Interior Department.

RECOMMENDATION

I recommend that you authorize a response during the hearings which will make clear your current position.

DECISION

__________ Indicate that the Melcher-Bell statement apparently is based on a misunderstanding of your position.

__________ Indicate that the Melcher-Bell statement reflects your current position.

P-080

(PETROLEUM)

WASHINGTON (UPI) -- PRESIDENT FORD WAS REPORTED TODAY TO HAVE DECIDED TO SUPPORT LEGISLATION CALLING FOR THE TRANSFER OF THE NAVY'S UNTAPPED UNDERGROUND PETROLEUM RESERVES TO THE INTERIOR DEPARTMENT.

CHAIRMAN JOHN MELCHER, D-MONT., OF THE HOUSE PUBLIC LANDS SUBCOMMITTEE TOLD REPORTERS OF THE "UNOFFICIAL" SWITCH BY THE PRESIDENT AFTER THE PANEL UNANIMOUSLY APPROVED A BILL PROVIDING FOR THE TRANSFER OF JURISDICTION.

MELCHER SAID FORD APPARENTLY HAD NOT SAID ANYTHING PUBLICLY BECAUSE HE HAS SENT CONGRESS A PROPOSED BILL CALLING FOR PRODUCTION FROM THE ELK HILLS RESERVE IN CALIFORNIA UNDER CONTINUED NAVY JURISDICTION.

BUT MELCHER SAID THE WHITE HOUSE HAD "PRIVATELY" AND "UNOFFICIALLY" SAID THE PRESIDENT "WOULD BE DELIGHTED TO HAVE (THE ~~COM~~

P-082

ADD 1 PETROLEUM, WASHINGTON (UP-080)

~~BUT MELCHER SAID THE WHITE HOUSE HAD "PRIVATELY" AND "UNOFFICIALLY" SAID THE PRESIDENT "WOULD BE DELIGHTED TO HAVE (THE~~ COMMITTEE) BILL MOVE QUICKLY."

THE BILL APPROVED BY UNANIMOUS VOICE VOTE OF THE HOUSE PANEL WOULD TRANSFER BOTH THE ELK HILLS RESERVE AND THE NAVY'S HUGE ALASKAN RESERVE TO THE INTERIOR DEPARTMENT FOR ADMINISTRATION.

LIKE THE ADMINISTRATION BILL, IT CALLS FOR PRODUCTION AS QUICKLY AS POSSIBLE FROM THE ELK HILLS RESERVE AND FOR FURTHER EXPLORATION OF THE ALASKAN OIL FIELD.

MELCHER SAID HE WOULD PUSH FOR HOUSE ACTION ON THE BILL WITHOUT FIRST REFERRING IT TO THE HOUSE ARMED SERVICES COMMITTEE. THE BILL NOW GOES TO THE PARENT HOUSE INTERIOR COMMITTEE.

HE ALSO SAID HOUSE SPEAKER CARL ALBERT HAD RULED THAT THE LEGISLATION WAS PROPERLY REFERRED TO THE INTERIOR COMMITTEE DESPITE A PROTEST BY REP. JOHN MOSS, D-CALIF., WHO CONTENDED IT SHOULD HAVE GONE TO THE ARMED SERVICES COMMITTEE.

UPI 02-28 03:03 PED

NAVAL PETROLEUM RESERVES LEGISLATION

Question:

Congressman Melcher has indicated that the White House has sent an "unofficial" signal that you would be "delighted" to have the Congress pass his bill which transfers the Naval Petroleum Reserves to the Interior Department? Do you favor his bill?

Answer:

My legislative proposal (Energy Independence Act of 1975) calls for Congressional action to permit us to move forward with exploration, development and production of the Naval Petroleum Reserves. After careful consideration, I did not propose transferring the reserves from Navy to Interior because my objective for sound use of the reserves can be met without transferring the reserves from Navy to Interior. I continue to believe that my proposal is the best approach.

M. Duval(G.R.S.)
3/6/75

[ca. 3/15/75]

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

File

FROM: Frank G. Zarb

THRU: Rogers C.B. Morton

SUBJECT: Energy Legislation Compromise

The attached briefing book includes talking points for your Tuesday meeting with key Republicans on the House side and an option paper and supporting analyses of possible energy legislation compromises.

We are not asking for any decisions at this time and I will schedule another meeting later in the week for your decisions on the next steps and directions in developing a compromise legislative program.

TABLE OF CONTENTS

TAB A

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

March 15, 1975

OFFICE OF THE ADMINISTRATOR

MEETING WITH ROGERS MORTON, FRANK ZARB, BILL SIMON, HENRY KISSINGER (TOM ENDERS), JIM LYNN, BILL SEIDMAN, MAX FRIEDERSDORF JACK MARSH, ALAN GREENSPAN, REPRESENTATIVE SCHNEEBELI, REPRESENTATIVE CONABLE AND REPRESENTATIVE BROWN

Tuesday, March 18, 1975
11:00 A.M.
The Oval Office

From: Frank G. Zarb

I. PURPOSE

To discuss possible compromise strategies with Republican congressional leaders.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: We have been making some progress in moving towards compromise with the House Ways and Means and Commerce Committees on a national energy program. The ranking minority members of these Committees have been invited to discuss possible compromises with you today. A decision memorandum from the ERC is attached which outlines these alternatives.

B. Participants: Roger Morton, Frank Zarb, Bill Seidman, Max Freidersdorf, Jack Marsh, Alan Greenspan, Bill Simon, Henry Kissinger (Tom Enders), Jim Lynn, Herman Schneebeli, Barber Conable, Bud Brown

C. Press Plan: None at this time.

III. TALKING POINTS

1. As you know, there is now considerable activity in Congress on developing an energy program.

2. I've postponed the second and third dollars of my import fees for 60 days and hopefully we can have a legislative program by then. If not, I do intend to impose the remaining import fees.

3. Members of the Administration have had extensive discussions with Congressmen Ullman and Dingell, and Senators Pastore, Jackson and Long.

4. Our strategy is to attempt to get acceptable legislation from Ways and Means and the House Commerce Committee as early as possible.

5. This morning I would like to discuss the major areas of potential compromise and get your views before I make my decisions later this week.

6. Let me ask Frank Zarb to go through these areas and briefly discuss the alternates we are considering.

TAB B

OPTIONS FOR ENERGY LEGISLATION COMPROMISE

Background

Members of the Administration have been meeting extensively with the Chairman and staff of the House Ways and Means Committee and other Congressional committees to pursue areas of possible agreement on the energy program.

Based on these discussions, it appears that it is now possible to develop a compromise position on your energy tax program. While a compromise is possible, major concessions on both sides will likely be necessary.

There are numerous areas of agreement between the Ways and Means program and your own. (Tab C compares both programs and summarizes agreements and disagreements.) In general, while our disagreements are significant, Ways and Means is already further toward our goals, strategies and philosophies than any of the other enunciated Democratic plans. Hence, any compromise with Ullman will place him further out on a limb and be subject to major weakening or deletion by the rest of the Congress. It is clear, however, that Ways and Means recommends different types of energy taxes than recommended by the Administration and may recommend limitations on the President's ability to impose import fees.

The other major House activity is in Representative Dingell's Subcommittee on Energy and Power, which has jurisdiction over 7 of the 13 titles in your Omnibus energy legislation. While Mr. Dingell started out philosophically opposed to your approach, he appears to be moving closer to the Ways and Means philosophy. But, there will be major problems getting several of your proposals through his committee.

The Democratic leadership's program developed by Representative Wright and Senator Pastore is being divided into several components and we remain far apart in terms of our thinking. The Senate seems to have a firm grip on this program and will be more difficult to deal with than the House.

We have concentrated our efforts with the House Committees since they will report out a bill on our tax proposals first and since they are more likely to compromise towards our objectives. The major disagreements can be boiled down into four areas:

OPTIONS FOR ENERGY LEGISLATION COMPROMISE

Background

Members of the Administration have been meeting extensively with the Chairman and staff of the House Ways and Means Committee and other Congressional committees to pursue areas of possible agreement on the energy program.

Based on these discussions, it appears that it is now possible to develop a compromise position on your energy tax program. While a compromise is possible, major concessions on both sides will likely be necessary.

There are numerous areas of agreement between the Ways and Means program and your own. (Tab C compares both programs and summarizes agreements and disagreements.) In general, while our disagreements are significant, Ways and Means is already further toward our goals, strategies and philosophies than any of the other enunciated Democratic plans. Hence, any compromise with Ullman will place him further out on a limb and be subject to major weakening or deletion by the rest of the Congress. It is clear, however, that Ways and Means recommends different types of energy taxes than recommended by the Administration and may recommend limitations on the President's ability to impose import fees.

The other major House activity is in Representative Dingell's Subcommittee on Energy and Power, which has jurisdiction over 7 of the 13 titles in your Omnibus energy legislation. While Mr. Dingell started out philosophically opposed to your approach, he appears to be moving closer to the Ways and Means philosophy. But, there will be major problems getting several of your proposals through his committee.

The Democratic leadership's program developed by Representative Wright and Senator Pastore is being divided into several components and we remain far apart in terms of our thinking. The Senate seems to have a firm grip on this program and will be more difficult to deal with than the House.

We have concentrated our efforts with the House Committees since they will report out a bill on our tax proposals first and since they are more likely to compromise towards our objectives. The major disagreements can be boiled down into four areas:

- Timing of import reductions.
- Conservation focus on gasoline.
- Use of allocations, quotas and purchasing authority.
- New auto efficiency incentives.

A number of proposed compromise actions are presented in the remainder of this memorandum along with their expected impact. In summary, they would have the following effects:

	1975	1977
President's goals	1 MMB/D	2 MMB/D
Savings from Admin. program	1.0 MMB/D	2.1 MMB/D
Estimated Savings from Ullman Plan	0.5 MMB/D	1.4 MMB/D
Estimated savings from compromise program	0.5-0.7 MMB/D	1.7-2.0 MMB/D

You will be meeting on Tuesday with senior Republicans from the Ways and Means Committee and Dingell's Subcommittee. No decisions need be made on these alternatives until after that meeting.

I. TIMING OF IMPORT REDUCTIONS

Perhaps the major conflict is the difference between quickly achieving the 1 MMB/D and 2 MMB/D reductions to stem any increase in vulnerability and desire of some in the Congress to phase in a program very slowly to avoid economic impact now and allow a gradual transition. Many in Congress, and several outside economists alike, appear convinced that the rapid drop in imports under the Administration's program would cause major economic impacts. Some accommodation is obviously necessary. Congress favors no action in 1975, little or no action in 1976, and a 4-8 year phase-in of price increases from proposals such as a gasoline tax or decontrol. Such timing makes any savings in 1975 unlikely and your 2 MMB/D 1977 goal unreachable.

Options:

There are two phasing options which might be adopted by the Congress.

Option 1

A 3-5 year phase-in of the import fees, decontrol, and other taxes. Dingell, whose subcommittee has jurisdiction over decontrol, is leaning towards a 5 year phase-in.

Option 2

A 2 year phase-in of the program, coupled with an "economic safety valve" which would delay each phase after the initial step, if the economy does not recover as expected.

Using an "economic safety valve" will be complicated and subject to being placed at a level where it effectively precludes any action. However, it may be the only way for the Administration and the Democrats to compromise on a program which can meet your 1977 goal. The 3-5 year phase-in is easier to administer, but means a significant abandonment of both of your short-term goals.

Recommendations: Adopt Option 2.

- Phase in your petroleum tax program between now and the end of 1977.

  ° Leave the $1 crude oil import fee in place, add a $.50 product import fee on July 1, 1975, and add another $.50 fee to product imports on July 1, 1976. (Add $1 more to import fees on July 1, 1977, if you reject the partial gasoline tax in the next section.)

  ° Allow old oil to be decontrolled in three equal steps by releasing 1/3 of the old oil from price controls on July 1, 1975 and 1/3 more on July 1 of each year thereafter. This would be the equivalent of raising old oil prices by $2 per barrel at each step.

- Phase in natural gas deregulation.

  ° Deregulate new gas now.

  ° Place a cap on new gas wellhead prices which would be $.75 per MCF for 1975, $1.00 for 1976, $1.25 for 1977 and then no cap.

- Phase in the natural gas excise tax in three 10¢ increments each year starting July 1, 1975.

- Provide for a statutory economic safety valve which would defer the next annual increase automatically if economic conditions deteriorated. (Tab D provides more details.)

Presidential Decision:

Agree _____

Disagree _____

Comments:

II. CONSERVATION FOCUS ON GASOLINE

The Ways and Means Committee originally put forward a large gasoline tax which would rise from 5¢ per gallon beginning sometime in the latter half of 1975 to 40¢ per gallon by 1979. The latest indication is that Representative Ullman will request a gasoline tax of 7¢ in 1975, rising to between 35-40¢ in 1979. This tax can save significant quantities of fuel. It should be noted that a lower gasoline tax, coupled with phased decontrol and excise taxes is the permanent equivalent of the Administration's proposed "gasoline tilt."

Options:

A gasoline tax is considerably more popular than across the board increases. However, with decontrol and partial import fees, a much lower gas tax is needed to save an equivalent amount of fuel. The only options available are:

Option 1

Oppose any gasoline excise tax.

Option 2

Agree to a gasoline tax, but at a much reduced level. There are two major alternatives under this approach:

1. Accept a schedule of:

   - 5¢ in July 1975.
   - additional 5¢ as of July 1976.
   - additional 5¢ for a total of 15¢ as of July 1977.

2. Accept a even lower gas tax which, along with the rest of the program, achieves the original goals for 1977 (probably 10¢/gallon on gasoline at its maximum).

Recommendation: Adopt Option 2.

Accept a phased, but lower gasoline tax, at the minimum level needed to achieve our original goals. The net effect of the phased in excise taxes, decontrol and the gasoline tax is to increase all prices by about 12¢ per gallon by 1977. Gasoline prices would be up by 18¢ while all other products would increase by only 7¢.

Presidential Decision:

Agree _____

Disagree _____

Comments:

III. USE OF ALLOCATION, QUOTAS AND FEDERAL PURCHASING AUTHORITIES

The Ways and Means Committee has proposed the use of gradually decreasing quotas to meet our energy conservation goals. After extensive discussions, the Committee seems convinced that quotas that actually restrict supply would necessitate the use of allocation with significant adverse consequences. The Committee also suggested the use of a Federal purchasing authority to acquire all U.S. imports, but they recognize the complexities of such a program.

Options:

The use of quotas or purchasing mechanisms are philosophically opposed to our program, but politically popular. Our options are:

Option 1

Oppose these mechanisms completely.

Option 2

Develop variations of quotas which do not have significant adverse effects and adopt a discretionary Federal purchasing authority for strategic reserves purchases.

Option 3

Implement Federal purchasing authority to restrict supply.

Recommendations: Adopt Option 2.

- Agree to a very loose, standby quota system.
  - Would be designed to cut imports by no more than the demand reduction that would be achieved by the final conservation tax program.
  - Levels could be frequently adjusted by the President as conditions change.
  - Authority to use an auction to allocate the rights to import among domestic refiners and importers.
- Agree to a Federal purchasing authority which would only be used to purchase oil for the U.S. strategic reserve, and not interfere with the current market mechanisms for normal U.S. imports. This authority, while representing a possible final bargaining point, could become very powerful and could affect prices at the margin.

Presidential Decision:

Agree _____

Disagree _____

Comments:

IV. NEW AUTO EFFICIENCY INCENTIVES

As part of your energy conservation program a voluntary agreement to achieve a 40% improvement in new car efficiency was reached with the major domestic auto manufacturers. The Congress generally feels this is an insufficient guarantee and is proposing either legislatively imposed efficiency standards or a tax on large autos to discourage both their manufacture and purchase.

The recent EPA ruling on auto emissions will require a renegotiation of our voluntary agreement with the auto manufacturers -- giving even more impetus to a legislated solution. The Ways and Means Committee strongly favors the tax approach and suggests a tax schedule which would place no taxes on autos which get over 20 or 25 miles per gallon and a tax rising to between $500 and $1000 per auto for cars with less efficiency. The tax would be phased in starting with the 1977 model year.

While we favor the voluntary approach, it also appears that the tax approach is far superior to regulatory standards, if we must accept some additional actions.

Options:

Option 1

Oppose any tax.

Option 2

Work with Committee to develop a viable tax option.

Recommendations: Adopt Option 2.

- Accept a tax on less efficient autos starting with the 1978 model year, and work with Ways and Means to develop it.
- Indicate that the auto emission standards problem must be simultaneously resolved. (The likelihood of a rapid resolution of the auto emission standard problem is slim.)
- Indicate you will strongly oppose regulatory standards in addition to the tax disincentives.
- Some of your advisors feel that we should continue our current position in order to keep the pressure on revising the auto emission standards.

Presidential Decision:

Agree _____

Disagree _____

Comments:

V. OTHER TAX AREAS

The Ways and Means Committee has indicated a general desire to include other tax incentives for insulation retrofit, coal conversion, coal production, and industrial energy conservation. While these are not likely to be as significant either substantively or politically, we will continue to work with the Committee to evaluate these options and come back to you once the details are developed.

Recommendation:

That in evaluating these options we indicate that none will be acceptable on their merits unless they can be fully financed out of tax revenues generated by the gasoline tax, import fees or windfall profits taxes.

ENERGY PROGRAM COMPARISON

GOALS

President	Ways and Means	Assessment
° 1975 - 1 MMB/D reduction ° 1977 - 2 MMB/D reduction ° 1985 - imports of 3 to 5 MMB/D	° 1975 - not specified ° 1977 - 1 MMB/D reduction ° 1985 - imports of 6 MMB/D	° Compromise on timing and level possible

SHORT TERM PROGRAM

President	Ways and Means	Assessment
° Taxes/fees on all petroleum and natural gas	° Taxes on gasoline	° Compromise on timing and gasoline emphasis possible
° Old oil decontrol and new natural gas deregulation	° Phased decontrol and deregulation	° Compromise on timing possib
° Windfall profits tax	° Windfall profits tax (oil, gas and coal) and depletion allowance repeal	° Details could probably be worked out
° Not included	° Import quotas and allocation	° Major philosophical differe
° Amendments to coal conversion authorities	° Not included	° Need to discuss

LONG TERM PROGRAM

President	Ways and Means	Assessment
Energy Supply		
° Naval Petroleum Reserve development	° Naval Petroleum Reserve development	° No differences
° Aggressive Outer Continental Shelf leasing	° Government exploration of Outer Continental Shelf	° Major philosophical differe
° 1 MMB/D synthetic fuels program	° Incentives for synthetic fuels	° Details need to be develope
° Electrical utility rate return and tax incentives	° Utility tax credits	° Major differences on scope program

President	Ways & Means	Assessment
° Clean Air Act Amendment	° Not included	° Not in Ways & Means
° Standby price floor	° Not included	° Need to discuss
Conservation		
° 40% auto efficiency standards/ emission changes	° Taxes and rebates	° Compromise possible if Clea Air Act can be included
° Thermal building standards	° Not included	° Not in Ways and Means
° Insulation tax credit and low income grants	° Incentives for insulation	° Need to develop details, compromise possible
° Not included	° Incentives for industry	° Need to explore cost/benefi of program
Emergency Measures		
° 1.3 billion storage program and standby measures	° Storage program & standby measures	° Compromise likely

TAB D

ECONOMIC SAFETY VALVE

There are several possible ways to implement an economic safety valve with respect to energy actions. The major decisions that would be needed are how often to use the mechanism and what economic indicator should be linked to it.

Frequency of Use

To be meaningful, the economic safety valve should be used no more frequently than every 9-12 months. With the lag times in reporting of economic indicators and the slowness in development of trends, more frequent cycles would be difficult and misleading.

It is proposed that the initial import fee and steps towards decontrol be implemented without any economic indicators test. Thereafter, additional steps towards decontrol or import fees would be on an annual basis provided the economic indicators used as the safety valve are not negative. If they are, the next phase of the tax or decontrol increases would automatically be postponed six months and the process would be repeated.

Economic Measure

There are three obvious candidates for use as the economic measure: inflation, unemployment, and GNP. With each of these, there would have to be a relatively accurate forecast of the economy to estimate the safety level.

The inflation rate would be a poor choice as it does not represent economic health, would be difficult to predict, and would not be largely affected by these incremental steps.

The unemployment rate is likely to be the measure with the greatest political and social appeal. It is easy to understand and directly affects the average citizen. There are two major disadvantages with using unemployment as an indicator:

1. It is unlikely that anybody would commit to an unemployment level above 8% and would most likely say that unemployment would have to be below 6-7% for the next steps to occur. This might effectively preclude any next steps even before the program was implemented.

2. The energy program has very little impact on unemployment, but tying the increments to unemployment might suggest a connection.

ENERGY

NOTES ON ENERGY MEETING - MARCH 18, 1975, 11:15 A.M.

Attending: Congressmen Brown
Congressman Schneebeli
Congressman Conable

Zarb, Greenspan, Marsh, Cheney, Friedersdorf, Zausner, Connor, Seidman, Lynn, Morton, Cannon, Carlson, Duval

Key Points Made

President: Concerning our efforts to deregulate natural gas, we must target in on the individual Congressional Districts. We must determine unemployment, rising costs, etc., and make sure that the Congressmen that are opposing deregulation are aware of the impacts in their District. Specific focus should be on Congressman Sharp.

Is anyone trying to organize labor and management to target in on individual members concerning our energy program with particular emphasis on natural gas?

Leonard Woodcock should be of help on emission standards.

Concerning Elk Hills, Navy has been dragging its feet. The President has told Schlesinger that he wants action on the proposal and it is now beginning to move. The Navy had better understand that the President will endorse the Melcher bill if DOD doesn't get moving. The President will be going to California to visit Elk Hills and the geothermal plant in Northern California.

The President referred to the negotiations in the Middle East. We need stand-by authority to allocate, etc., in the event of another embargo.

The President thought Zarb's suggestion that he call in Jackson, Magnuson, Pastore and Long might be a good idea as a method of getting the Senate energy movement synchronized with the House progress.

Responding to Congressman Brown's comments, the President stated that we must move on selling revenue sharing. Told Jim Cannon to work up a plan on this which will include going into the Congressional Districts to drum up support.

Congressman Schneebeli: Don't make too much haste on the energy program. Ullman is moving closer and closer to us.

We must consider and determine what to do with revenues collected by energy taxes, some revenue decreases being planned by Ways and Means. This includes proposals to increase the capital gains treatment.

Congressman Conable: The President should make Ullman look good. He's moving towards us but has considerable problems from the Democratic Caucus and the freshmen Congressmen. The President's program is "Rube Goldbergish" but it is realistic because it doesn't require Congress to take action.

Politically, the President is getting through to the American people on the delays in Congress in passing an energy program. However, legislatively, the pressure could work against the President because Congress might be panicked into passing a bad law. Time is on our side in terms of getting a better bill.

Concerning coordinating pressure on particular Republicans to enact natural gas deregulation and the energy package, John Harper, Bob Michel and John Rhodes are responsible for this.

Al Ullman is likely to get his legs cut off by the Democratic Caucus.

Congressman Brown: Ullman and his staff do not know what the capital requirements are of industry for exploration and production of energy. This is a major weakness in light of proposals under consideration in Congress concerning depletion, etc.

Staggers has been emasculated and is no longer effective. Moss is running the Interstate and Foreign Commerce Committee, and this presents a threat to Dingell. Moss is closely allied with the new members.

Most of the Committee members are ready for gradual deregulation of old oil along the lines of 10% each six months over 3-1/2 years.

Committee also favors stand-by quotas and some sort of a Federal bid sale mechanism. What is likely is an establishment of the mechanism with the President having stand-by authority to use it.

One way to get deregulation of natural gas is for Congress to authorize the FPC to redefine what constitutes regulated gas. One lever on Dingell concerning deregulation of natural gas is through Detroit and the auto industry.

We should keep deregulation of natural gas and old oil tied together. (The President indicated he agreed with this.)

The key point in deregulation is to put the onus on the Federal Power Commission.

We should separate out the auto emission question because of the sulfate problem. Dingell wants to keep this tied to energy because of a sub-committee jurisdictional fight with Rogers.

They are likely to come up with a tax on new automobile mileage.

The following is a schedule for the Dingell Committee:

1) They will finish this week background hearings and start to develop a staff outline.

2) During the recess, the staff will draft legislation.

3) After the recess, there will be the usual "role playing" when various Committee members attack the staff draft bill.

We must get a task force around the country selling revenue sharing the same way we did inititally. It can also push energy. We need to get the Democrats who oppose revenue sharing because this will alienate county officials, mayors, etc.

We cannot defeat Consumer Protection Agency bill, but we can prevent a bad bill. New York Times editorial attacking the Senate action exempting labor should be utilized as an argument in our favor. If labor is included, the chances are that no bill will come out. A good point in the Senate bill is the requirement for an Economic Impact Statement. The key guy in the House for us on CPA is John Erlenborn.

KEY ACTION ITEMS

1. We must develop an active plan to sell our proposal to deregulate natural gas. This must include targeting on individual Congressional Districts through management and labor. We should develop a scenario showing what is likely to happen next winter when the weather won't be abnormally warm and the effects of the recession will have abated. There could be very serious natural gas shortages. We should simulate what they will be and take steps to notify State and local officials.

2. We need a strategy concerning auto emissions. One question is whether or not to split the whole issue off from the energy package, and the second question is whether or not to treat the 1977 problems separately.

3. We need to think through how we should balance the political benefits of pressuring Congress for their failure to come up with an energy program versus the legislative risks of prompting them into ill-advised action.

4. We need to review our efforts to mobilize support among management and labor for the overall energy package.

5. We need to develop a plan to sell Revenue Sharing and to tie other key programs to this effort, such as energy.

6. We should follow up on the comments of Congressman Brown concerning the Consumer Protection Agency.