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MEETING WITH
JACK MARSH, FRANK ZARB,
ALAN GREENSPAN, MAX FRIEDERSDORF

Tuesday, July 8, 1975
2:00 p. m.

THE PRESIDENT HAS SEEN....



FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

July 10, 1975

MEMORANDUM FOR DON RUMSFELD
JIM CONNOR

FROM: FRANK G. ZARB *FZ*

SUBJECT: ACTIONS TAKEN AT JULY 8, 1975, 2 PM MEETING WITH
PRESIDENT FORD

The President directed that we proceed directing a decontrol of old oil as follows:

- A 30 month program with all controls expiring on January 31, 1977.
- That we will place an administrative ceiling on new oil prices to \$2 above the February 1 new oil costs. The average ceiling will be \$13.50.
- He also directed that we be prepared to make a formal announcement Monday, July 14.
- That we brief the White House Press after his formal statement.
- That additional material be made available to all Members of Congress describing the importance of approving our program.

Joint responsibilities and follow-up involve Greenspan, Cheney and me.



THE PRESIDENT HAS SEEN....



FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

July 8, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarb *M*
SUBJECT: Old Oil Decontrol

WRP

Attached is a draft statement to accompany the submission of administrative decontrol to the Congress. This plan represents a substantial compromise from your State of the Union proposal, including:

- A two and one-half year phase out which ends January, 1978.
- A cap on new oil prices at about \$13.50 per barrel.

This program will result in less import savings than your original proposals, about 1.4-1.5 million barrels per day versus 2 million barrels, but will insulate domestic oil prices from additional OPEC price increases and is a reasonable compromise with the Congress' desire for an even more gradual program.

I recommend that the program be forwarded to the Congress next Monday to provide ample time for Congressional action and compromise prior to the August 1 Congressional recess. If you approve, I will check the proposal with the White House Counsel.

Attachment

ADMINISTRATION STATEMENT
ON
OLD OIL DECONTROL

I am today submitting to the Congress, a program to maintain price controls on old oil, but phase them out gradually with all controls ending by January 1978. In addition, to assure that any OPEC price increase during this period does not result in similar increases in domestic oil, I am also putting a ceiling on domestic oil prices. I also again call on the Congress to enact a windfall profits tax to assure no unfair gains and allow rebating of these taxes to the American consumer.

Lawbach

This proposal will provide increased incentives for domestic oil production and energy conservation while cutting our import vulnerability and payments for foreign oil. By 1977, this action will lower imports by almost 300 thousand barrels per day and reduce American payments to foreign producers of oil by almost \$2 billion annually. By 1985, decontrol will add over one million barrels per day to production and cut demand by several hundred thousand barrels per day.

If we take no action to increase domestic oil production or cut consumption, we will be more than twice as vulnerable to an embargo by 1977 as we were in the winter of 1973-74.



The decontrol of old oil prices is the single most important step that can be taken to cut our growing dependence on foreign oil.

The plan I am submitting today is significantly different from my original proposal of immediate decontrol last spring. Although I believe that decontrol is vital, in the spirit of compromise I am willing to take a more gradual approach to achieve the desired objective. As a result of this program, by the end of 1975, prices of petroleum products will only rise by about 2¢ per gallon and it will be 1978 before the full effect is felt. While I am reluctant to establish another level of oil prices, I also understand the legitimate concerns that if we decontrol now, future unwarranted OPEC price rises will be needlessly mirrored in domestic prices. The ceiling I am proposing, which will last the duration of the price control phase out, will guarantee that this does not happen.

I am taking this action administratively because we cannot afford to wait indefinitely for a legislative solution by the Congress.

I proposed decontrol, along with a comprehensive legislative tax program over six months ago. Yet, even today, not one piece of constructive energy legislation has been passed. Had I not administratively imposed fees on imported petroleum, there would still be no energy conservation



measures implemented. The tax bill which passed the House and has not yet even been considered by the Senate saves no more energy in the next few years than the existing import fees and less than one-half million B/D ten years from now.

With respect to decontrol, Congressional action has been even more disappointing. The Senate has not even held hearings on this important subject. In the House, what started out as a realistic attempt to legislate a decontrol plan has turned into a decontrol plan which rolls back prices, stimulates energy use, reduces petroleum production and by 1980 could add more than one million B/D to our imports. Yet even this proposal has not been acted upon by the full House.

The Congress has just returned from its July 4 recess and will recess for the month of August. The Emergency Petroleum Allocation Act, under which the Federal Energy Administration controls petroleum prices, expires on August 31. Rather than legislate a decontrol plan, the Congress is now considering sending me a simple extension of the Allocation Act. I will veto such an extension and let immediate decontrol occur unless my administrative plan is accepted by the Congress or they enact a simple extension which includes an acceptable decontrol program. I cannot simply sign an extension, which will surely allow the Congress to put off any new action on decontrol until mid-1976. I am certain that at the end of that extension we would be more than one year away from my



original proposal last January and see no more action than we have to date. I have seen too much procrastination and delay in these last six months to allow continued inaction.

The American consumer is already paying too high a price because of our increasing vulnerability to foreign imports. I cannot and will not allow this to continue.

I do not want price and allocation controls for oil to expire on August 31, but if that is the only way to move forward on a constructive and effective energy program I will be forced to accept such a result. The phased decontrol plan I have submitted adequately balances our energy and economic concerns. I urge the Congress to approve it and add it to an extension of the Allocation Act and an appropriate windfall profits tax.





FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

July 8, 1975

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*called Zarb's office 7/9 (Pog)
will have a response on return
to the President devoted by noon
tomorrow 7/10.*

E.C.



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ON
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