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THE WHITE HOUSE  
WASHINGTON

September 14, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

FRANK ZARB

FROM:

JIM CONNOR *JEB*

SUBJECT:

Deregulation of Naptha-Based  
Jet Fuel

Confirming phone call to your office this afternoon, the President reviewed your memorandum of September 13 on the above subject and approved the following option:

"Send decontrol proposal as scheduled"

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE  
WASHINGTON

September 14, 1976

MR PRESIDENT:

Deregulation of Naptha-Based  
Jet Fuel

In addition to the recommendations shown on page 5 of the attached memorandum prepared by Frank Zarb, Jack Marsh and Max Friedersdorf recommend sending the decontrol proposal as scheduled.

OMB (Jim Mitchell) commented they recommend sending decontrol proposal. They do not believe that the budget impact on DOD should change this.

NSC (Bud McFarlane) commented they recommend sending decontrol proposal but would not object to DOD's recommendation to delay sending decontrol proposal .

If you approve FEA's recommendation, this action should be taken no later than Wednesday, September 15 if we are to have enough time under the law for Congress to review the decision prior to its October 2 recess.

Jim Connor



# FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

September 13, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB *FZ*

SUBJECT: DEREGULATION OF NAP THA-BASED JET FUEL

## BACKGROUND

Pursuant to your direction when you signed the Energy Policy and Conservation Act (EPCA) last December, the Federal Energy Administration (FEA) initiated the process of removing from price and allocation controls as many petroleum products as possible. Since then Congress has approved conversion of price and allocation controls to standby status for petroleum products accounting for 40 percent of the yield from a barrel of crude oil. These include residual fuel oils, middle distillates (heating oils and diesel fuels), lubricants, greases, and a number of intermediate products. The sequence of decontrol has been determined by the supply and demand conditions for products, the requirement to hold public hearings and the necessity to avoid having more than one decontrol proposal at a time before the Congress.

Based on these considerations the next product FEA proposes to submit for exemption is naphtha-based jet fuel. This is military grade jet fuel (JP-4), and accounts for approximately 2 percent of total U.S. refinery production. The Defense Department consumes 98 percent of such fuel and small refiners account for nearly 40 percent of its total production.

The Department of Defense has objected to submitting the naphtha jet fuel (JP-4) proposal for exemption at this time for reasons outlined in this paper.

FEA has completed its study, held public hearings with full knowledge of DOD's opposition, and made the findings required by the Act: adequate supply exists and minimal price impacts will be experienced in the event of decontrol. FEA proposes to transmit this action to Congress for consideration on September 15, 1976. This is the last day that will allow the required time for congressional consideration prior to adjournment.

The remaining major fuels not yet decontrolled are kerosene-based jet fuel, used primarily by commercial airlines, and gasoline. Studies of these fuels are underway and they are scheduled to be proposed for exemption early in the next session of Congress, or later this year should Congress reconvene after the elections.

#### DOD POSITION

The proposed unilateral decontrol of military JP-4 jet fuel suffers from the following disadvantages:

- o A price disparity will be created between decontrolled military jet fuel and commercial jet fuel which will remain under price control. When, following the Arab boycott a similar disparity occurred, there was a congressional investigation and both DOD and FEA were severely criticized and accused of wasting millions of dollars in excessive jet fuel costs.
- o Small refiners, the intended principal beneficiaries of JP-4 decontrol, cannot in fact obtain price benefits until their current contracts expire. A few of those contracts will expire by March 31, 1977, but most (61 percent of the contracts, accounting for 60 percent of total supply) run through September 30, 1977.
- o Of six refiners holding JP-4 contracts with clauses that permit termination or renegotiation upon decontrol, only one is small. The others that can gain immediate price relief from decontrol are all large firms (Union, Getty, Cities Service, Sun, and Continental). Another

large firm (Exxon) stands to gain early benefit from decontrol to a lesser degree. At least part of the contracts held by most large refiners will expire by mid-FY 77.

- o There will be unprogrammed DOD FY 77 expenditures of \$20 million.

The foregoing considerations indicate that the proposed expedited unilateral decontrol of military JP-4 jet fuel will serve no useful purpose and is contrary to the best interests of the government. It will increase military fuel costs. It will provide only limited price relief for a few small refiners until FY 78. It will benefit large refiners, some immediately and most by mid-FY 77. It will expose DOD to higher jet fuel prices while continuing to protect commercial airlines. In summary it conveys an impression of government collaboration with big oil - an impression which is not in the interests of either government or industry.

DOD recommends that the action to decontrol JP-4 at this time be terminated. DOD's primary recommendation is that JP-4 should be decontrolled at the end of FY 77, when all current contracts will have expired. An alternative proposal by DOD is that the recommendation for the decontrol of JP-4 be forwarded to Congress in conjunction with either or both the proposals for the decontrol of kerosene jet fuel and motor gasoline.

#### FEA POSITION

- o FEA's findings and views required by EPCA and supported unanimously in testimony at public hearings held on September 3, 1976, indicate adequate supplies and minimal price impacts resulting from decontrol. Specifically, FEA expects price increases of no more than 1 cent a gallon on the average, with a maximum upper limit of 2 cents per gallon. Since DOD buys 98 percent of all domestic JP-4 production, FEA believes that through its contractual commitments DOD can maintain an appropriate price relationship between JP-4 and commercial jet fuel, which will remain under price controls.

- o The extent to which large refiners benefit and small refiners do not will be a function of existing contractual relationships between DOD and its suppliers. Thus, any budgetary impact will be minimized. In any event, refiners, both large and small, testified unanimously at the public hearings in favor of decontrol. Decontrol now will encourage investment in small and independent refineries, even though the benefits for some refiners may be postponed until their existing contracts expire.
- o Failing to decontrol JP-4 despite the findings and public testimony conveys an impression that the government is willing to risk higher prices for other consumers but is not willing itself to face the implications of decontrol. This will weaken our argument for decontrolling kerosene jet fuel and gasoline.
- o Deferring decontrol of JP-4 until the end of FY 77 would cause this to be the last of the products to be decontrolled. Thus, direct cost increases would be borne by the airlines and motorists from the decontrol of kerosene jet fuel and motor gasoline before the Federal government accepted the cost increase of decontrolling JP-4.
- o Coupling the proposal for the decontrol of JP-4 with either or both motor gasoline or kerosene jet fuel would increase the complexity and uncertainty of obtaining congressional approval for the decontrol of any of these products. FEA's strategy of sequential decontrol has proven effective to date, at least in part, by minimizing the constituencies opposed to any one action.
- o DOD's recommendation to terminate or delay the JP-4 decontrol action at this time would create uncertainty as to the Administration's commitment to decontrol and minimize governmental interference in private industry.

AGENCY COORDINATION

	<u>Supports</u>	
	<u>FEA</u>	<u>DOD</u>
National Security Council	X	
Department of the Treasury	X	
Council of Economic Advisors	X	
Assistant to President for Economic Affairs	X	
Department of Commerce		
Office of Management and Budget	X	
Domestic Council	X	

PRESIDENTIAL DECISION

MR Send decontrol proposal as scheduled.

\_\_\_\_\_ Do not send decontrol proposal at this time.

September 14, 1976

MR PRESIDENT:

Deregulation of Naptha-Based  
Jet Fuel

In addition to the recommendations shown on page 5 of the attached memorandum prepared by Frank Zarb, Jack Marsh and Max Friedersdorf recommend sending the decontrol proposal as scheduled.

OMB (Jim Mitchell) commented they recommend sending decontrol proposal. They do not believe that the budget impact on DOD should change this.

NSC (Bud McFarlane) commented they recommend sending decontrol proposal but would not object to DOD's recommendation to delay sending decontrol proposal .

If you approve FEA's recommendation, this action should be taken no later than Wednesday, September 15 if we are to have enough time under the law for Congress to review the decison prior to its October 2 recess.

Jim Connor



FEDERAL ENERGY ADMINISTRATION  
WASHINGTON, D.C. 20461

September 13, 1976

DEPUTY ADMINISTRATOR

MEMORANDUM FOR JIM CONNOR

FROM: JOHN A. HILL *JAH*

SUBJECT: Presidential Decision on Naptha Decontrol

Attached is a decision paper for the President regarding the decontrol of naptha based jet fuel. It has been thoroughly reviewed and signed off by the ERC and, pending a vote from OMB and ~~the Domestic Council~~, is ready for Presidential action.

This action must go to the Congress no later than Wednesday, September 15 if we are going to have enough time under the law for Congress to review the decision prior to its October 2 recess. Thus, the possibility of decontrolling naptha jet fuel this year is contingent upon a Presidential decision no later than Wednesday.

I apologize for the short turn around time but the issue is relatively simple. It would have been at the White House sooner if it hadn't taken 10 days to get DOD to agree to the language in the memo.

Attachment

THE WHITE HOUSE  
WASHINGTON

Bob Linder -

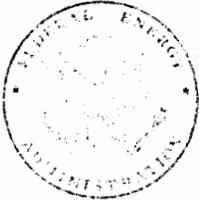
This decision has gone to the President. Since they speak of a sending something tomorrow -- thought you should be aware of it.

Does FEA send this proposal?

Trudy

9/14/76

*Press  
office*



FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20541

September 13, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: DEREGULATION OF NAP REA-BASED JET FUEL

BACKGROUND

Pursuant to your direction when you signed the Energy Policy and Conservation Act (EPCA) last December, the Federal Energy Administration (FEA) initiated the process of removing from price and allocation controls as many petroleum products as possible. Since then Congress has approved conversion of price and allocation controls to standby status for petroleum products accounting for 40 percent of the yield from a barrel of crude oil. These include residual fuel oils, middle distillates (heating oils and diesel fuels), lubricants, greases, and a number of intermediate products. The sequence of decontrol has been determined by the supply and demand conditions for products, the requirement to hold public hearings and the necessity to avoid having more than one decontrol proposal at a time before the Congress.

Based on these considerations the next product FEA proposes to submit for exemption is naphtha-based jet fuel. This is military grade jet fuel (JP-4), and accounts for approximately 2 percent of total U.S. refinery production. The Defense Department consumes 95 percent of such fuel and small refiners account for nearly 40 percent of its total production.

The Department of Defense has objected to submitting the nap the jet fuel (JP-4) proposal for exemption at this time for reasons outlined in this paper.

FEA has completed its study, held public hearings with full knowledge of DOD's opposition, and made the findings required by the Act: adequate supply exists and minimal price impacts will be experienced in the event of decontrol. FEA proposes to transmit this action to Congress for consideration on September 15, 1976. This is the last day that will allow the required time for congressional consideration prior to adjournment. ||

The remaining major fuels not yet decontrolled are kerosene-based jet fuel, used primarily by commercial airlines, and gasoline. Studies of these fuels are underway and they are scheduled to be proposed for exemption early in the next session of Congress, or later this year should Congress reconvene after the elections.

#### DOD POSITION

The proposed unilateral decontrol of military JP-4 jet fuel suffers from the following disadvantages:

- o A price disparity will be created between decontrolled military jet fuel and commercial jet fuel which will remain under price control. When, following the Arab boycott a similar disparity occurred, there was a congressional investigation and both DOD and FEA were severely criticized and accused of wasting millions of dollars in excessive jet fuel costs.
- o Small refiners, the intended principal beneficiaries of JP-4 decontrol, cannot in fact obtain price benefits until their current contracts expire. A few of those contracts will expire by March 31, 1977, but most (61 percent of the contracts, accounting for 60 percent of total supply) run through September 30, 1977.
- o Of six refiners holding JP-4 contracts with clauses that permit termination or renegotiation upon decontrol, only one is small. The others that can gain immediate price relief from decontrol are all large firms (Union, Getty, Cities Service, Sun, and Continental). Another

large firm (Exxon) stands to gain early benefit from decontrol to a lesser degree. At least part of the contracts held by most large refiners will expire by mid-FY 77.

- o There will be unprogrammed DOD FY 77 expenditures of \$20 million.

The foregoing considerations indicate that the proposed expedited unilateral decontrol of military JP-4 jet fuel will serve no useful purpose and is contrary to the best interests of the government. It will increase military fuel costs. It will provide only limited price relief for a few small refiners until FY 78. It will benefit large refiners, some immediately and most by mid-FY 77. It will expose DOD to higher jet fuel prices while continuing to protect commercial airlines. In summary it conveys an impression of government collaboration with big oil - an impression which is not in the interests of either government or industry.

DOD recommends that the action to decontrol JP-4 at this time be terminated. DOD's primary recommendation is that JP-4 should be decontrolled at the end of FY 77, when all current contracts will have expired. An alternative proposal by DOD is that the recommendation for the decontrol of JP-4 be forwarded to Congress in conjunction with either or both the proposals for the decontrol of kerosene jet fuel and motor gasoline.

#### FEA POSITION

- o FEA's findings and views required by EPCA and supported unanimously in testimony at public hearings held on September 3, 1976, indicate adequate supplies and minimal price impacts resulting from decontrol. Specifically, FEA expects price increases of no more than 1 cent a gallon on the average, with a maximum upper limit of 2 cents per gallon. Since DOD buys 95 percent of all domestic JP-4 production, FEA believes that through its contractual commitments DOD can maintain an appropriate price relationship between JP-4 and commercial jet fuel, which will remain under price controls.

- o The extent to which large refiners benefit and small refiners do not will be a function of existing contractual relationships between DOD and its suppliers. Thus, any budgetary impact will be minimized. In any event, refiners, both large and small, testified unanimously at the public hearings in favor of decontrol. Decontrol now will encourage investment in small and independent refineries, even though the benefits for some refiners may be postponed until their existing contracts expire.
- o Failing to decontrol JP-4 despite the findings and public testimony conveys an impression that the government is willing to risk higher prices for other consumers but is not willing itself to face the implications of decontrol. This will weaken our argument for decontrolling kerosene jet fuel and gasoline.
- o Deferring decontrol of JP-4 until the end of FY 77 would cause this to be the last of the products to be decontrolled. Thus, direct cost increases would be borne by the airlines and motorists from the decontrol of kerosene jet fuel and motor gasoline before the Federal government accepted the cost increase of decontrolling JP-4.
- o Coupling the proposal for the decontrol of JP-4 with either or both motor gasoline or kerosene jet fuel would increase the complexity and uncertainty of obtaining congressional approval for the decontrol of any of these products. FEA's strategy of sequential decontrol has proven effective to date, at least in part, by minimizing the constituencies opposed to any one action.
- o DOD's recommendation to terminate or delay the JP-4 decontrol action at this time would create uncertainty as to the Administration's commitment to decontrol and minimize governmental interference in private industry.

AGENCY COORDINATION

Supports

FEA   DOE

National Security Council	X
Department of the Treasury	X
Council of Economic Advisors	X
Assistant to President for Economic Affairs	X
Department of Commerce	
Office of Management and Budget	
Domestic Council	X

PRESIDENTIAL DECISION

\_\_\_\_\_ Send decontrol proposal as scheduled.

\_\_\_\_\_ Do not send decontrol proposal at this time.

MEMORANDUM  
OF CALL

TO:

YOU WERE CALLED BY—       YOU WERE VISITED BY—

*Jim Mitchell*

OF (Organization)

PLEASE CALL → PHONE NO. CODE/EXT. \_\_\_\_\_  
 WILL CALL AGAIN       IS WAITING TO SEE YOU  
 RETURNED YOUR CALL       WISHES AN APPOINTMENT

MESSAGE

*1*  
*Jim Lynn's note on*  
*Napthw issue*  
*Send up decontrol*  
*Can not believe that*  
*the budget impact on*  
*DO & should <sup>change</sup> affect this.*  
*effort*

RECEIVED BY *T*      DATE *9/13*      TIME *7:30*

Date: September 13, 1976

Time:

FOR ACTION:

cc (for information):

- ✓ Jack Marsh
- ✓ Max Friedersdorf

FROM THE STAFF SECRETARY

DUE: Date: Tuesday, Sept. 14

Time: 10 A.M.

SUBJECT:

Frank Zarb memo 9/13/76 re Deregulation  
of ~~Napht~~Based Jet Fuel

ACTION REQUESTED:

- |   |  |
|---|--|
| <input type="checkbox"/> For Necessary Action         | <input checked="" type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief     | <input type="checkbox"/> Draft Reply                         |
| <input checked="" type="checkbox"/> For Your Comments | <input type="checkbox"/> Draft Remarks                       |

REMARKS:

This action must go to the Congress no later than 9/15 if we are going to have enough time under the law for Congress to review the decision prior to its October 2 recess. Your immediate decision would be appreciated.

*Friedersdorf - send decentral proposal*  
*Marsh - send decentral proposal.*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor  
For the President

Date: September 13, 1976

Time:

FOR ACTION:

cc (for information):

Jack Marsh  
Max Friedersdorf

*M.F.*

FROM THE STAFF SECRETARY

DUE: Date: Tuesday, Sept. 14 Time: 10 A.M.

SUBJECT:

Frank Zarb memo 9/13/76 re Deregulation  
of Naptha Based Jet Fuel

ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

This action must go to the Congress no later than 9/15 if we are going to have enough time under the law for Congress to review the decision prior to its October 2 recess. Your immediate decision would be appreciated.

→ Presidential Decision - Send decontrol proposal as scheduled.

*MF*

Jim Connor  
EX of the President

way to an orderly phasing out of controls on oil, thereby stimulating our own oil production. Requested earlier this year, it will enable us to set up a strategic oil storage system, convert more utility and power plants to coal, and take other steps to increase production and promote energy conservation. It makes possible the removal of the oil import fee of \$2 per barrel. The bill provides a foundation upon which we can develop a more comprehensive program for the future. I ask the Congress to work with me to put into effect additional programs essential to achieve energy independence, including immediate Congressional action to increase natural gas, to stimulate far greater produc-

President spoke at 3:09 p.m. in the Briefing Room at the White House. Signed, the Energy Policy and Conservation Act (S. 622) Public Law 94-163, approved December 22, 1975.

## Energy Policy and Conservation Act

Message by the President on Signing S. 622, December 22, 1975

Nearly a year the American people and many of our friends abroad have been waiting to see whether the Executive and legislative branches of our Government could reach an agreement on the basic framework of a comprehensive energy policy. It has long been apparent that indecision and delay would only prolong our vulnerability to foreign energy producers. Since the oil embargo of 1973, we have in fact become more dependent upon foreign oil, and our total payments to foreign producers have continued to increase at an intolerable rate.

The single most important energy objective for the Nation today is to resolve our internal differences and move ourselves on the road toward energy independence. It is in that spirit that I have decided to sign the Energy Policy and Conservation Act.

This legislation is by no means perfect. It does not include all the essential measures that the Nation needs to achieve energy independence as quickly as I would like. After carefully balancing the inadequacies and the merits, I have concluded that this bill is in the national interest and should be enacted into law. There are three factors I have found persuasive in reaching this decision.

First, this bill will enable the United States to meet a major portion of the midterm goals for energy independence that I set forth in my first State of the Union Address. Among the measures I requested in January 1975 and provided in this legislation are authorities for a strategic storage system, conversion of oil and gas fired

utility and industrial plants to coal, energy efficiency labeling, emergency authorities for use in case of another oil embargo, and the authorities we need to fulfill our international agreements with other oil consuming countries.

Second, the pricing provisions of this legislation, properly implemented, will permit the gradual phasing out of controls on domestic oil. The bill seeks to lower retail prices in the short term and runs the risk of creating a false impression that we can have all the energy we want at cheaper prices. But, over time, this legislation removes controls and should give industry sufficient incentive to explore, develop, and produce new fields in the Outer Continental Shelf, Alaska, and potential new reserves in the Lower 48 States. I fully intend to use the flexibility which is granted to me by this legislation to expedite the decontrol of crude oil in order to increase domestic production. I do not expect the Congress to stand in the way of such actions.

I know there are some who fear that this legislation could mean that the energy industry will be subjected indefinitely to governmental controls which would create further distortions and inefficiencies. As one who believes that minimizing governmental interference in the marketplace is essential to a strong economy and more jobs, I share those concerns. Accordingly, I pledge that I will work to ensure that by the end of 40 months, governmental controls over domestic oil prices will be fully phased out. We will begin immediately, as authorized by the legislation, to remove all current price and allocation regulations except those on crude oil prices.

Third, I am also persuaded that this legislation represents the most constructive bill we are likely to work out at this time. If I were to veto this bill, the debates of the past year would almost surely continue through the election year and beyond. The temptation to politicize the debate would be powerful, and the Nation could become further divided. This most responsible action now is to set the best course we can and stick to it.

On balance, therefore, I find that this legislation is constructive and puts into place the first elements of a comprehensive national energy policy. It permits me to remove the \$2 per barrel oil import fee. It provides a foundation upon which we can build together toward our goal of energy independence.

Now we should move forward to complete the legislative tasks I set before the Nation last January. Specifically, we still need natural gas legislation to deal with immediate shortages and to increase our supply of natural gas over the long run. The only solution is to deregulate the price of new natural gas. The Senate has acted favorably on such legislation. I urge the House to act expeditiously so that, by the end of January, deregulation of the price of new natural gas will have become law. But this isn't the only new legislation we need. For example, our Nation needs prompt Congressional action to permit production of oil

from the energy industry. The Commission will permit production of oil. In 1975, the Commission will determine the amount of my production. Having determined the amount of my production, I will determine the amount of my production.

NOTE: A bill is Public

Veto Pickens

Statement of Intentions

I am signing S. 622, the Energy Policy and Conservation Act, on December 22, 1975. I am signing this bill because it is the most constructive bill we are likely to work out at this time. If I were to veto this bill, the debates of the past year would almost surely continue through the election year and beyond. The temptation to politicize the debate would be powerful, and the Nation could become further divided. This most responsible action now is to set the best course we can and stick to it.

Actual H.R. 5000, the Supreme Court case and collective bargaining development related to collective bargaining to the objection.

For the problem of finding an alternative by contract.

Because of the economic solution and would curtail strikes, I in the case.

There Dunlop,