The original documents are located in Box 14, folder "Energy - Federal Energy Administration: White Paper on Gasoline Rationing (1)" of the John Marsh Files at the Gerald R. Ford Presidential Library.

JAN 2 2 1975

OFFICE OF THE DIRECTOR

CONGRESSIONAL AFFAIRS

TO: Jack DATE: 1/22/75

Dear Jack:

Attached for your information is a draft of our "white" paper on gasoline rationing and a booklet which contains all pertinent information on the President's Economy and Energy Message which will be handed out to participants after the Senate and House briefings by Frank Zarb tomorrow.

Additionally, we have several "goodie" miscellaneous pamphlets on Tips to Save Energy which will also be offered.

Regards

Paul

Paul Cyr

P.S. The flip charts we discussed are in the back of this pamphlet.

FEDERAL ENERGY ADMINISTRATION

Room _____ Ext. _____

ANALYSIS OF GASOLINE RATIONING

Office of Energy Conservation
and Environment
Federal Energy Administration
January 21, 1975

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Description of Rationing System

- Each licensed driver in the country would receive an equal monthly allotment of coupons entitling him to purchase 35 gallons/month at the controlled price. These coupons could be freely traded or sold. The coupon market would permit those drivers with needs greater than those represented by the monthly allotment to purchase additional coupons from those who use less than their monthly amount.

- Commercial users would receive coupon allotments equivalent to 90 percent of their consumption during the 1973 base period.

- For that limited class of users for whose special needs the coupon resale market is not a reasonable solution, a 3% of the coupons would be set aside and distributed by the state. This distribution would be based primarily on emergency or hardship needs.

- Coupons would be picked up in person at Post Offices by each eligible individual. They will be invalidated at the pump at time of purchase, and deposited by retailers with banks in a special coupon account. Gasoline deliveries to suppliers will be made to retailers only for amounts equivalent to coupons collected.

Gasoline Use Data

- Estimated consumption in 1975 270 MG/D
  Millions of gallons per day (MG/D)

- Number of licensed drivers in 1974 125.1 million
  (increase of up to 15 million anticipated if coupon rationing is put into effect)

- Allowance for Each Licensed Driver
  per day = 1.2
  per month = 35
  per year = 420

Problems with Gasoline Rationing

Gallons per month and price of Gasoline

- To save 1 million barrels per day, while assuring adequate fuel for business will mean limiting each licensed driver to about 35 gallons per month, compared to current average of 50 gallons/month. The buying and selling of coupons will raise the effective price of gasoline (pump plus coupon price) to an estimated $1.75/gallon for those who must purchase more than their basic ration.

Impact on National Energy Goals

- Gasoline rationing, while it may limit consumption in the short run, makes no contribution to our mid and long term goals of energy independence, because it provides no incentives for increasing supply.

- By concentrating exclusively on private vehicles, many other fruitful areas for energy conservation are not addressed -- such as improved industrial efficiency, better constructed and insulated buildings, less wasteful use of electricity and natural gas.

Potential for Inequities

- Each person receives an equal number of coupons, but use of gasoline varies widely among drivers. Thus, rationing inevitably leads to inequities. Some examples are:

  - A divorced secretary with two children living in the suburbs who commutes 16 miles each way to work in a car getting 12 mpg will experience an 80% increase in her commuting costs, because she must purchase 18 additional coupons each month at an average cost of $1.20 each. This amounts to about $240/year in additional costs.

  - A blue-collar worker who owns a car that gets only 9 miles/gallon can drive just over 300 miles/month on his basic ration, and could not easily afford to purchase a new, more efficient automobile. On the other hand, an affluent neighbor can readily trade in his equally inefficient old car to purchase one getting better than 22 mpg. This allows him to drive over 750 miles on the same allotment of coupons.

- Substantial regional inequities would exist. The average driver in some rural states such as Montant travels nearly 600 miles per month versus about 300 in less rural states such as New York and New Jersey. Similar disparities exist between city dwellers and suburbanites. Under rationing each would receive the same gallonage.

- Certain very poor persons, such as migrants, drive large distances each year. They can neither afford to buy additional coupons nor are alternative methods of transportation available to them.

- The recreation and tourism industry would be very heavily impacted, as would the auto industry. Automobile sales would decrease 35% from what they would otherwise be.

Increase Bureaucracy and Complexity

- o The Government would be involved in many new aspects of our every day life, adding an inescapable portion of bureaucracy, complexity, and inconvenience.

- o Gasoline rationing can be implemented but it is complex, expensive, and at best a short term solution. It takes 4-6 months to implement, about 15 to 25,000 full-time people and $2 billion in Federal costs, uses 40,000 post offices for distribution, and requires 3,000 state and local boards to handle exceptions.

- o Because coupons are transferable, they must be picked up by each driver in person bi-monthly at post offices. Long lines and delays are inevitable.

- o Gas stations, with limited quantities to sell, are unlikely to maintain more than the most limited service hours. Evening and weekend closings are almost a certainty.

Impact on GNP

- o Use of allocation and rationing to reduce imports by one million barrels per day would create a drop of nearly 13 billion dollars in the GNP and place several hundred thousand more workers on unemployment tolls. Also, rationing would have an inflationary impact due to the significantly higher clearing price of gasoline coupons sold by those having excess coupons.

Comparison of Gas Rationing and President's Program

- Each option has major regional impacts; rationing hits the mountain states, the southwest and the mid-west hardest. The President's program effects New England and the east coast.

- Rationing will reduce consumption in the short term but is inadequate as long term solution. The President's program is effective in both the short and long run.

- Both rationing and the President's program transfer about $2 billion to poor families in the first year.

- Rationing is costly and complex; the President's program is inexpensive and easy to administer.

- Rationing raises the CPI by 1 1/2 percentage points, the President's program by 2 1/2 points.

- Rationing would cost the country $13 billion in GNP and a substantial increase in unemployment; the President's program would have negligible effects in each area.

DESCRIPTION OF COUPON RATIONING SYSTEM

I. SYSTEM OPERATION

A. Entitlements

- All 125 million licensed drivers receive an equal monthly coupon allotment (estimated at 35 gallons per month). These coupons could be freely traded and sold.
- Commercial users receive a coupon allotment equivalent to a percentage of base period consumption, estimated at 10% less than 1973 consumption.
- State Set Aside for special cases (3% of available supply), i.e. migrants, the handicapped, etc.
- Government and non-profit organizations included in commercial sector.
- Coupons for first quarter are of one class, and are not serialized. Changes could be made in subsequent quarters.

B. Distribution

- Postal Service would distribute coupons at the 40,000 post offices four times a year.
- Estimated that 4.8 billion coupons would be needed in first quarter (amount currently in storage).
- Under special conditions, an agent could pick up coupons for those not able to do so themselves.
- Users would pay a fee of $3.00 per quarter amounting to $1.5 billion. (This would cover most of estimated program cost).
- Local Boards throughout the States would handle special appeals from state residents with emergency or hardship gasoline needs.
- In first quarter, individuals would turn in self-executed application forms at their post office. Postal employees would validate application, examine and mark driver's license, and issue ration coupons.

- o In subsequent quarters, licensed drivers would receive state-issued authorization cards in the mail, entitling them to pick up ration coupons at their post offices.

- o For first quarter, commercial users would submit an FEA form to their bank, which would issue them an allotment in the form of a coupon draft. These drafts would be exchanged for coupons at the Post Office. Forms would be forwarded by banks to FEA so that FEA could issue coupon drafts for the second and following quarters.

- o Forms retained for audit purposes.

- o U.S. agencies would apply directly to FEA for coupon allotments.

C. Banking System

- o Commercial banks would be mainstay of coupon redemption mechanism.

- o Initially, gas stations take deposit ration coupons received from motorists to local banks and receive gasoline drafts (in gallons) enabling them to purchase additional gasoline from their supplier.

- o In subsequent quarters, a complete ration banking system would be established, in which commercial, government and non-profit users along with gas stations, and suppliers, would participate.

- o FEA Processing Centers would handle initial applications and maintain records of all commercial users. These centers would issue drafts for ration coupons in subsequent quarters, through the mail.

D. Coupon Resale Market

- o unused coupons would be freely traded or sold. Those with excess coupons could sell them to those willing to pay the price.

- o Federal Government would make no attempt to control or regulate trade in coupons except to identify and prohibit practices which inhibit natural interplay of market forces.

- o It is estimated that excess coupons would be sought by more than one half of all users.

E. State Set-Aside

- o State set-aside of coupons (about 3%) would be available to recognize claims of users for whom the resale market is not a vehicle for their special needs.
- o About 3,000 local boards throughout the states would administer the set-asides, replying to applications.
- o The State-Set-Aside will also be used for organizations or governmental units performing essential public health or safety services.
- o Federal Government could provide quidelines to assure uniform application of eligibility criteria.

F. Enforcement System

- o Vigorous enforcement program would be required to prevent widespread abuses.
- o The audit program would focus on commercial and non-profit users to detect overstatement of base period volumes, and on gasoline suppliers to detect illegal shipments of gasoline.
- o There would also be a system to detect multiple applications by individuals.

II. PRELIMINARY ESTIMATE OF RESOURCES REQUIRED (STEADY-STATE ANNUALIZED BASIS)

A. Personnel Resources

(1) Federal

FEA Headquarters - 625 positions

FEA Regions - 3,250 positions (1,200 opl; 2,000 enforcmt)

U.S. Post Office - unknown

Non-FEA Enforcement - 2,500 positions

(2) State and Local

3,000 local boards @10 each (15,000 volunteers; 15,000 support staff)

51 Department of Motor Vehicle @100 each - 5,100 positions

B. Costs	(million $)
USPS Distribution @ $1.60 per transaction	845
USPS shipping costs	50
Coupon printing serialized	195
Forms printing	30
ADP system	200
Public Education Materials	10
	1,330
Direct Salaries	
o Federal (6375 @ 20K)	127.5
o State and local (20,100 @ 20K)	402
GRAND TOTAL	1.86 billion

GASOLINE USE DATA

Use Data

A. Estimated consumption in 1975 Millions of gallons per day (MG/D) — 270 MG/D

B. End use categories - volume and percent

Private use	205	76%
Business/commercial	57	21%
Government	8	3%

C. Number of registered vehicles in 1975 — 130.75 million

D. Number of licensed drivers in 1974 (increase of up to 20 million anticipated if coupon rationing is put into effect) — 125.1 million

Programmatic Assumptions for Rationing

A. Will achieve 1 MB/D saving through reduction in gasoline consumption

B. Business will receive 90% of 1973 gasoline consumption

C. Coupons will be provided to licensed drivers as opposed to allocations based on registered vehicles

Key Parameters of Data and Assumptions

A. Business Allowance

o Estimated 1975 consumption	57 MG/D
o Less 10% of 1973 consumption	6 MG/D
o Allowance	51 MG/D

B. Private Use Allowance

o Estimated 1975 consumption	205 MG/D
o Less reduction	36 MG/D
o Allowance	169 MG/D

C. Allowance for Each Licensed Driver

Gallons:
per day = 1.2
per month = 35.0
per year = 420.0

(Gasoline Use Data - continued)

D. Private Use of Automobile by Trip Purpose

Work trip 31%

Recreational trip 31%

Family business 34%

PROBLEMS WITH GASOLINE RATIONING

Gallons per Month and Price of Gasoline

- To save 1 million barrels per day, while assuring adequate fuel for business will mean limiting each licensed driver to about 35 gallons per month, compared to current average of 50 gallons/month and restricting businesses to 10% less than their last year's use. The buying and selling of coupons will raise the effective price of gasoline (pump plus coupon price) to an estimated $1.75/gallon for those who must purchase more than their basic ration.

Impact on Energy Conservation Goals

- Gasoline rationing, while it may limit consumption in the short run, makes no contribution to our mid and long term goals of energy independence.

- Rationing limits the consumption of gasoline not through price but through proscription. Thus, an artificial shortage is created, inciting people to attempt to "beat the system" rather than to conserve fuel.

- Moreover, because of the inherent complexities in even the most carefully designed rationing system, and the fluid nature of American society, a rationing scheme is probably limited to a useful life of no more than two years. Thus, even as a conservation tool, it has a limited utility.

- Rationing provides no incentive for increasing domestic petroleum supply or bringing on alternate energy sources.

- By concentrating exclusively on private vehicles, many other fruitful areas for energy conservation are not addressed -- such as improved industrial efficiency, better constructed and insulated buildings, less wasteful use of electricity and natural gas.

Potential for Inequities

- Each person receives an equal number of coupons, but use of gasoline varies widely among drivers. Governmental decisions will be based on statistical averages and broad, objective criteria; they cannot possibly take into account most of the differences in individual needs and preferences. Thus, rationing inevitably leads to inequities. Some Examples are:

(Problems with Gasoline Rationing - Continued)

- A divorced secretary with two children living in the suburbs who commutes 16 miles each way to work in a car getting 12 mpg will experience an 80% increase in her commuting costs, because she must purchase 18 additional coupons each month at an average cost of $1.20 each. This amounts to about $240/year in additional costs.

- A blue-collar worker who owns a car that gets only 9 miles/gallon can drive just over 300 miles/month on his basic ration, and could not easily afford to purchase a new, more efficient automobile. On the other hand, an affluent neighbor can readily trade in his equally inefficient old car to purchase one getting better than 22 mpg. This allows him to drive over 750 miles on the same allotment of coupons.

- A single individual with a mid-size car (15 mpg) could drive up to 20 miles/day. If he wanted to take a 300 mile trip over a long 4-day weekend, he could only use his car for that four day period during that month. He would have to arrange for other transportation for the remaining 26 days of the month, or purchase additional coupons.

- A Congressman living in Georgetown would have only enough gas to drive his 10 mpg car to work 5 days a week and travel 15 miles on the weekend (not even a round trip to Dulles airport).

- Substantial regional inequities would exist. The average driver in some rural states such as Montana travels nearly 600 miles per month versus about 300 in less rural states such as New York and New Jersey. Similar disparities exist between city dwellers and suburbanites. Under rationing each would receive the same gallonage.

  - A family of 4 with two licensed drivers and one car which gets 15 mpg moves from New York to California. This move would take 2-1/2 months of the family's coupons. One out of every five families moves every year.

  - Certain very poor persons, such as migrants, drive large distances each year. They can neither afford to buy additional coupons nor are alternative methods of transportation available to them.

(Problems with Gasoline Rationing - Continued)

- The recreation and tourism industry would be very heavily impacted, as would the auto industry. Automobile sales would decrease 35% from what they would otherwise be.

- A small successful Midwestern sales firm which had increased its business and sales area 50% since 1973 would have the market area it can cover reduced 40% under its basic rationing allotment.

Increased Bureaucracy and Complexity

- o The Government would be involved in many new aspects of our every day life, adding an inescapable portion of bureaucracy, complexity, and inconvenience.

- o Gasoline rationing can be implemented but it is complex, expensive, and at best a short term solution. It takes 4-6 months to implement, about 15 to 25,000 full-time people and $2 billion in Federal costs, uses 40,000 post offices for distribution, and requires 3,000 state and local boards to handle exceptions.

- o The Government, rather than normal market forces, decides which new businesses are eligible for an allocation of gasoline coupons, and how rapidly businesses can expand their gasoline use.

- o The Government decides on a case by case basis if special circumstances warrant extra coupons (i.e., the handicapped, poor people who drive long distances, etc.).

- o Because coupons are transferable, they must be picked up by each driver in person bi-monthly at post offices. Long lines and delays are inevitable.

- o Gas stations, with limited quantities to sell, are unlikely to maintain more than the most limited service hours. Evening and weekend closings are almost a certainty.

- o The longer a rationing program is in place, the more likely collusive and illegal behavior becomes, such as counterfeiting or pilferage of coupons.

Impact on GNP

- o Use of allocation and rationing to reduce imports by one million barrels per day would create a drop of nearly 13 billion dollars in the GNP and place several hundred thousand more workers on unemployment rolls. Also,

(Problems with Gas Rationing - Continued)

rationing would have an inflationary impact (although not as great as the President's use of tariffs and excise taxes) due to the significantly higher clearing price of gasoline coupons sold by those having excess coupons.

- o Rationing leads to distortions in the marketplace as adjustments in business investments, modes of distribution, and purchases are made based on artificial, rationing-imposed costs.

Impact on Poor

- o Low income people are likely to drive less than average and thus, have excess coupons to sell. If speculators buy large quantities of coupons from the poor at low prices in order to resell them at high prices to the more affluent, the potential income benefits of the rationing program will be garnered by these entrepreneurs rather than by the poor.

Effects on Refining Runs

- o A reduction of 1 million barrels per day in the use of gasoline through rationing would have the following effects on refining production:

  - 1,500,000 b/d crude oil imports

  + 500,000 b/d product imports (made up of approximately 300,000 b/d residual oil products and 200,000 b/d middle distillates)

- o Such a reduction is likely to reduce domestic petroleum related employment, increase the cost/barrel of domestic production, and decrease the production rate and efficiency of U.S. refiners.

COMPARISON OF GAS RATIONING AND PRESIDENT'S PROGRAM

There are two principal options for reducing petroleum imports in the short to mid-term. They include the President's program of a petroleum tariff and decontrol of domestic oil prices; and a cap on imports with gasoline rationing and petroleum allocation. This paper briefly describes these options and discusses the impact of each on reducing imports, regional equity, inflationary impact, impact on the poor, administrative complexity and cost, and impact on the recession and employment.

OPTION A: IMPORT CAP/ALLOCATION/RATIONING

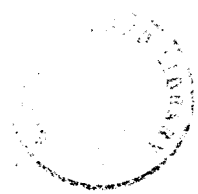
- A volumetric limit would be placed on imports equivalent to the reductions called for in the President's program.

- The current system of price controls for petroleum would be strengthened, including control of new domestic crude; thus an artificial shortage would be created.

- Since price is not used to determine distribution of petroleum products, the government would maintain its system of allocating to retailers, based essentially on historical use for products other than gasoline. The government would also control refinery yields.

- To prevent long gas lines, coupon rationing would be introduced. Such a program would include as its basic features:

  1) Each licensed driver would receive an equal monthly coupon allotment; these coupons could be freely traded or sold. The coupon market (the "white market") permits those drivers with needs greater than those represented by the monthly allotment to purchase additional coupons from those who use less than their monthly amount. Thus the market, rather than the government, is responsible for assessing "need" for gasoline above the basic minimum ration.



2) Commercial users, whether they buy in bulk or at the pump, would receive coupon allotments equivalent to a percentage of their consumption during the 1973 base period.

3) For that limited class of users (migrants, handicapped, etc.) for whose special needs the coupon resale market is not a reasonable solution, a proportion of coupons would be set aside and distributed by the state. This distribution would be based primarily on emergency or hardship needs.

4) Coupons would be picked up in person at Post Offices by each eligible individual. They will be invalidated at the pump at the time of purchase, and deposited by retailers with banks in a special coupon account. Gasoline deliveries to suppliers will be made to retailers only for amounts equivalent to coupons collected.

OPTION B: PRESIDENT'S PROGRAM OF TARIFF, TAX DECONTROL AND REBATE

- After April 1975, this program would consist of an additional tariff on petroleum imports of $2 per barrel and an excise tax of $2 per barrel on all domestic petroleum.

- Domestic oil prices will be decontrolled and a windfall profits tax implemented to ensure that the revenue generated will accrue to the government, not the oil companies. This will raise the overall price of petroleum by $2 a barrel. The tariff, taxes and decontrol, then, will add $4 to the price of a barrel of oil.

- In addition, an excise tax on natural gas equivalent to $2 a barrel would be adopted and new natural gas prices deregulated to equalize the impact on oil and natural gas consumers and decrease natural gas consumption.

- $30 billion will be collected by the government from the tariff and taxes. These revenues will all be rebated to consumers and governments.

Regional Disparities

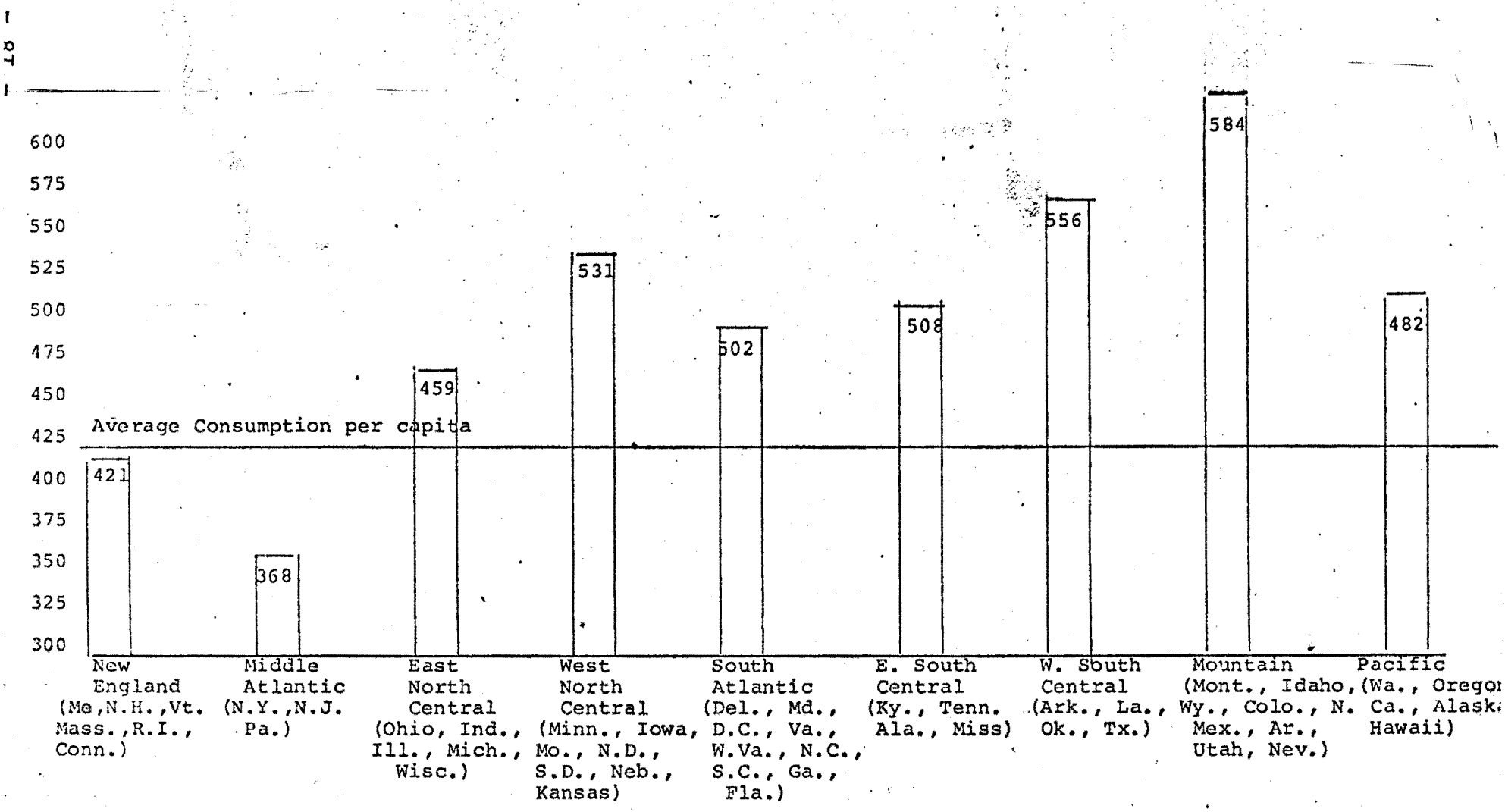
- Both options have major regional impacts. There are substantial regional variations in per capita gasoline use. Those in the Middle Atlantic states use less than two-thirds the gasoline of those in the Mountain states. Gasoline rationing as the attached chart shows, weighs more heavily on residents of the mountain states, southwest, and mid-west than on other citizens.

- Reliance on gasoline to bear the brunt petroleum cutbacks also discriminates against rural dwellers and in favor of those in cities. In the aggregate, rural dwellers use almost twice the gasoline/year of city residents.

- The President's program, which includes both oil and natural gas, impacts most heavily on the Northeast and the Mid-West. The Northeast is the most heavily impacted area where fuel oil is the major factor in price increases. The Mid-West is also heavily affected due to reliance on natural gas.

Percentage Increase in Household Fuel Costs Resulting From President's Program

	% Increase	% Above/Below U.S. Average Increase
United States Total	28.4	-
New England	34.6	+16%
Mid-Atlantic	32.3	+14%
East North Central	29.8	+ 5%
West North Central	27.7	- 3%
South Atlantic	26.0	- 8%
East South Central	19.7	-30%
West South Central	25.9	- 9%
Mountain	27.0	- 5%


600
575
550
525
500
475
450
425
400
375
350
325
300
Average Consumption per capita
421
368
459
531
502
508
556
584
482
New England (Me, N.H., Vt. Mass., R.I., Conn.)
Middle Atlantic (N.Y., N.J. Pa.)
East North Central (Ohio, Ind., Ill., Mich., Wisc.)
West North Central (Minn., Iowa, Mo., N.D., S.D., Neb., Kansas)
South Atlantic (Del., Md., D.C., Va., W.Va., N.C., S.C., Ga., Fla.)
E. South Central (Ky., Tenn. Ala., Miss)
W. South Central (Ark., La., Ok., Tx.)
Mountain (Mont., Idaho, Wy., Colo., N. Mex., Ar., Utah, Nev.)
Pacific (Wa., Oregon Ca., Alaska Hawaii)

Effectiveness in Reducing Imports in Short and Long Term

- o In the mid to long term the elasticity for gasoline is lower than that for other petroleum products. This is because there are fewer substitutes for gasoline than there are for other fuels. This means that an increase in the price of all petroleum products (President's program) will reduce imports more than an equal increase in the price (gasoline tax) of gasoline. In the short term this is not the case.

- o The reduction in imports from the President's program option is 900,000 barrels per day in 1975, 1.6 million in 1977, and 2.1 in 1985. This estimate is not a guaranteed saving, but is based on econometric studies.

- o The rationing/allocation option could obviously be adjusted to any level desired. The level considered in this paper is 1 million barrels per day in 1975 moving to 1.5 million in 1977. Because of the complexity of the administration and the limited ability of a rationing program to adjust to changes in the economy (e.g., people moving, new businesses started) it is probably not a viable option for more than one or two years. Hence, it is not really a feasible part of a mid or long term program. Moreover, the longer the system lasts, the more exceptions are made, the more people learn how to evade the rules, and the greater are the opportunities for counterfeiting and abuse.

- o If we are to reduce significantly our vulnerability to imports in the mid and long term we must adopt an option to reduce consumption of petroleum that can be effective in 1980 and 1985.

Income Effect

- o Gasoline rationing would have some beneficial impact as lower income people sell their excess coupons to those with higher income who in general use more gasoline. This effect would be somewhat limited by the plan to distribute coupons only to licensed drivers. The actual income transfer effects depend on the size of the shortage and the marginal price of the coupons.

- Private sector demand for gasoline in 1975 is estimated to be approximately 206 BG/D. Reducing daily petroleum consumption by 1 MMB/D solely through reductions in gasoline would result in a 17 percent reduction in supplies. The equilibrium price of gasoline would be about $1.75 per gallon ($.56/gal pump price plus $1.19/gal).

- The average "poor" household consumes 404.7 gallons of gasoline per year per vehicle while the "lower," "middle" and "well-off" households average 632.2, 823.1, and 800.8 gallons per year per vehicle, respectively. The average number of gallons of gasoline consumed per vehicle is 727.8. The surplus/shortage of gasoline per household group and the potential income transfer can be calculated by comparing the individual household consumption rates with the average consumption rate. The table shows the average gasoline use, per household, the surplus/shortage of gasoline, per household, and the net dollar demand for gasoline required to bring each household group up to full prerationing demand.

GASOLINE CONSUMPTION
AND INCOME TRANSFER

Income	(0-5,000)	(5,000-12,000)	(12,000-16,000)	(16,000+)	Total
Gal/Veh	404.7	632.2	823.1	800.8	727.8
Net Surplus/ Shortage (Gal/Veh)	+199.4	-28.1	-219.0	-196.7	-
Net Income Transfer ($Billions) to satisfy Non-restricted Demand*	+2.20	-1.31	-6.19	-7.25	Net Transfer

*Cost of Coupon = $1.19/gal.

- The poor household would have surplus coupons for 1,852 billion gallons of gasoline. The coupons for purchase of gasoline would trade at $1.19/gallon which would result in a net transfer of 2.20 billion dollars to the poor category of households in the first year.

o By contrast, the President's program would transfer roughly $3 billion from those with incomes above $16,000 to those earning less than $5,000 per year, preliminary calculations indicate.

	Income ($1,000)			
	0-5	5-12	12-16	16+
Additional Cost of Energy ($Mil)	725	8,200	2,900	7,500
Rebated Revenues ($Mil)	3,520	7,350	3,610	4,520
Net Transfer ($Billions)	+1.36	+0.44	-0.76	-0.53

Administrative Complexity and Cost

o The cost and number of people required to implement the President's system of tariffs, taxes and rebates is estimated at about $50 million and 400-500 additional people on the government payroll.

o The complexity of administering gasoline rationing and allocation is considerably greater than the other option, both because of the printing, distribution, collection, and control of coupons and because of the exceptions process for the poor necessary in every state and local community. Rationing will require an additional 17,000 government employees and approximately $2 billion per year to administer.

Inflationary Impact

o A $2/barrel import tariff plus excise taxes on domestic petroleum and natural gas would increase the Consumer Price Index by about 2 percentage points in 1975. Again, these fees would be returned to consumers so that the overall level of disposable income would not be changed.

- Under rationing, the cost of buying an additional coupon should stabilize at the market clearing level of $1.19. Thus, there would be an "inflationary" impact of about 1 1/2 percentage points on the Consumer Price Index in 1975.

THE PRESIDENT'S 1975

STATE OF THE UNION MESSAGE

including

ECONOMY

and

ENERGY

EMBARGOED FOR RELEASE
UNTIL 1:00 P.M., EST

EMBARGOED FOR WIRE TRANSMISSION
UNTIL 10:00 A.M., EST

JANUARY 15, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

Twenty-six years ago, a freshman Congressman, a young fellow, with lots of idealism who was out to change the world, stood before Speaker Sam Rayburn in the well of this House and solemnly swore to the same oath you took yesterday. That is an unforgettable experience, and I congratulate you all.

Two days later, that same freshman sat in the back row as President Truman, all charged up by his single-handed election victory, reported as the Constitution requires on the State of the Union.

When the bipartisan applause stopped, President Truman said:

"I am happy to report to this Eighty-first Congress that the State of the Union is good. Our Nation is better able than ever before to meet the needs of the American people and to give them their fair chance in the pursuit of happiness. It is foremost among the nations of the world in the search for peace."

Today, that freshman Member from Michigan stands where Mr. Truman stood and I must say to you that the State of the Union is not good.

Millions of Americans are out of work. Recession and inflation are eroding the money of millions more. Prices are too high and sales are too slow.

more

(OVER)

This year's Federal deficit will be about $30 billion; next year's probably $45 billion. The national debt will rise to over $600 billion.

Our plant capacity and productivity are not increasing fast enough. We depend on others for essential energy.

Some people question their government's ability to make the hard decisions and stick with them. They expect Washington politics as usual.

Yet, what President Truman said on January 5, 1949, is even more true in 1975.

We are better able to meet the peoples' needs.

All Americans do have a fairer chance to pursue happiness. Not only are we still the foremost nation in pursuit of peace, but today's prospects of attaining it are infinitely brighter.

There were 59,000,000 Americans employed at the start of 1949. Now there are more than 85,000,000 Americans who have jobs. In comparable dollars, the average income of the American family has doubled during the past 26 years.

Now, I want to speak very bluntly. I've got bad news, and I don't expect any applause. The American people want action and it will take both the Congress and the President to give them what they want. Progress and solutions can be achieved. And they will be achieved.

My message today is not intended to address all the complex needs of America. I will send separate messages making specific recommendations for domestic legislation, such as General Revenue Sharing and the extension of the Voting Rights Act.

The moment has come to move in a new direction. We can do this by fashioning a new partnership between the Congress, the White House and the people we both represent.

Let us mobilize the most powerful and creative industrial nation that ever existed on this earth to put all our people to work. The emphasis of our economic efforts must now shift from inflation to jobs.

To bolster business and industry and to create new jobs, I propose a one-year tax reduction of $16 billion. Three-quarters would go to individuals and one-quarter to promote business investment.

more

This cash rebate to individuals amounts to 12 percent of 1974 tax payments -- a total cut of $12 billion, with a maximum of $1,000 per return.

I call today on the Congress to act by April 1. If you do, the Treasury can send the first check for half the rebate in May and the second by September.

The other one-fourth of the cut, about $4 billion, will go to businesses, including farms, to promote expansion and create more jobs. The one-year reduction for businesses would be in the form of a liberalized investment tax credit increasing the rate to 12 percent for all businesses.

This tax cut does not include the more fundamental reforms needed in our tax system. But it points us in the right direction -- allowing us as taxpayers rather than the Government to spend our pay.

Cutting taxes, now, is essential if we are to turn the economy around. A tax cut offers the best hope of creating more jobs. Unfortunately, it will increase the size of the budget deficit. Therefore, it is more important than ever that we take steps to control the growth of Federal expenditures.

Part of our trouble is that we have been self-indulgent. For decades, we have been voting ever-increasing levels of Government benefits -- and now the bill has come due. We have been adding so many new programs that the size and growth of the Federal budget has taken on a life of its own.

One characteristic of these programs is that their cost increases automatically every year because the number of people eligible for most of these benefits increases every year. When these programs are enacted, there is no dollar amount set. No one knows what they will cost. All we know is that whatever they cost last year, they will cost more next year.

It is a question of simple arithmetic. Unless we check the excessive growth of Federal expenditures or impose on ourselves matching increases in taxes, we will continue to run huge inflationary deficits in the Federal budget.

If we project the current built-in momentum of Federal spending through the next 15 years, Federal, State, and local government expenditures could easily comprise half of our gross national product. This compares with less than a third in 1975.

more

(OVER)

I am now in the process of preparing the budget submissions for fiscal year 1976. In that budget, I will propose legislation to restrain the growth of a number of existing programs. I have also concluded that no new spending programs can be initiated this year, except those for energy. Further, I will not hesitate to veto any new spending programs adopted by the Congress.

As an additional step toward putting the Federal government's house in order, I recommend a five percent limit on Federal pay increases in 1975. In all Government programs tied to the consumer price index -- including social security, civil service and military retirement pay, and food stamps -- I also propose a one-year maximum increase of 5 percent.

None of these recommended ceiling limitations, over which the Congress has final authority, are easy to propose, because in most cases they involve anticipated payments to many deserving people. Nonetheless, it must be done. I must emphasize that I am not asking you to eliminate, reduce or freeze these payments. I am merely recommending that we slow down the rate at which these payments increase and these programs grow.

Only a reduction in the growth in spending can keep Federal borrowing down and reduce the damage to the private sector from high interest rates. Only a reduction in spending can make it possible for the Federal Reserve System to avoid an inflationary growth in the money supply and thus restore balance to our economy. A major reduction in the growth of Federal spending can help to dispel the uncertainty that so many feel about our economy, and put us on the way to curing our economic ills.

If we do not act to slow down the rate of increase in Federal spending, the United States Treasury will be legally obligated to spend more than $360 billion in Fiscal Year 1976 -- even if no new programs are enacted. These are not matters of conjecture or prediction, but again of simple arithmetic. The size of these numbers and their implications for our everyday life and the health of our economic system are shocking.

I submitted to the last Congress a list of budget deferrals and recisions. There will be more cuts recommended in the budget I will submit. Even so, the level of outlays for fiscal year 1976 is still much too high. Not only is it too high for this year but the decisions we make now inevitably have a major and growing impact on expenditure levels in future years. This is a fundamental issue we must jointly solve.

more

The economic disruption we and others are experiencing stems in part from the fact that the world price of petroleum has quadrupled in the last year. But we cannot put all of the blame on the oil-exporting nations. We in the United States are not blameless. Our growing dependence upon foreign sources has been adding to our vulnerability for years and we did nothing to prepare ourselves for an event such as the embargo of 1973.

During the 1960s, this country had a surplus capacity of crude oil, which we were able to make available to our trading partners whenever there was a disruption of supply. This surplus capacity enabled us to influence both supplies and prices of crude oil throughout the world. Our excess capacity neutralized any effort at establishing an effective cartel, and thus the rest of the world was assured of adequate supplies of oil at reasonable prices.

In the 1960s, our surplus capacity vanished and, as a consequence, the latent power of the oil cartel could emerge in full force. Europe and Japan, both heavily dependent on imported oil, now struggle to keep their economies in balance. Even the United States, which is far more self-sufficient than most other industrial countries, has been put under serious pressure.

I am proposing a program which will begin to restore our country's surplus capacity in total energy. In this way, we will be able to assure ourselves reliable and adequate energy and help foster a new world energy stability for other major consuming nations.

But this Nation and, in fact, the world must face the prospect of energy difficulties between now and 1985. This program will impose burdens on all of us with the aim of reducing our consumption of energy and increasing production. Great attention has been paid to considerations of fairness and I can assure you that the burdens will not fall more harshly on those less able to bear them.

I am recommending a plan to make us invulnerable to cut-offs of foreign oil. It will require sacrifices. But it will work.

I have set the following national energy goals to assure that our future is as secure and productive as our past:

-- First, we must reduce oil imports by 1 million barrels per day by the end of this year and by 2 million barrels per day by the end of 1977.

more

(OVER)

-- Second, we must end vulnerability to economic disruption by foreign suppliers by 1985.

-- Third, we must develop our energy technology and resources so that the United States has the ability to supply a significant share of the energy needs of the Free World by the end of this century.

To attain these objectives, we need immediate action to cut imports. Unfortunately, in the short-term there are only a limited number of actions which can increase domestic supply. I will press for all of them.

I urge quick action on legislation to allow commercial production at the Elk Hills, California, Naval Petroleum Reserve. In order that we make greater use of domestic coal resources, I am submitting amendments to the Energy Supply and Environmental Coordination Act which will greatly increase the number of power plants that can be promptly converted to coal.

Voluntary conservation continues to be essential, but tougher programs are also needed -- and needed now. Therefore, I am using Presidential powers to raise the fee on all imported crude oil and petroleum products. Crude oil fee levels will be increased $1 per barrel on February 1, by $2 per barrel on March 1 and by $3 per barrel on April 1. I will take action to reduce undue hardship on any geographical region. The foregoing are interim administrative actions. They will be rescinded when the necessary legislation is enacted.

To that end, I am requesting the Congress to act within 90 days on a more comprehensive energy tax program. It includes:

-- Excise taxes and import fees totalling $2 per barrel on product imports and on all crude oil.

-- Deregulation of new natural gas and enactment of a natural gas excise tax.

-- Enactment of a windfall profits tax by April 1 to ensure that oil producers do not profit unduly. At the same time I plan to take Presidential initiative to decontrol the price of domestic crude oil on April 1.

The sooner Congress acts, the more effective the oil conservation program will be and the quicker the Federal revenues can be returned to our people.

I am prepared to use Presidential authority to limit imports, as necessary, to assure the success of this program.

I want you to know that before deciding on my energy conservation program, I considered rationing and higher gasoline taxes as alternatives. Neither would achieve the desired results and both would produce unacceptable inequities.

A massive program must be initiated to increase energy supply, cut demand and provide new standby emergency programs to achieve the independence we want by 1985. The largest part of increased oil production must come from new frontier areas on the Outer Continental Shelf and from the Naval Petroleum Reserve No. 4 in Alaska. It is the intention of this Administration to move ahead with exploration, leasing and production on those frontier areas of the Outer Continental Shelf where the environmental risks are acceptable.

Use of our most abundant domestic resource -- coal -- is severely limited. We must strike a reasonable compromise on environmental concerns with coal. I am submitting Clean Air Act amendments which will allow greater coal use without sacrificing our clean air goals.

I vetoed the strip mining legislation passed by the last Congress. With appropriate changes, I will sign a revised version into law.

I am proposing a number of actions to energize our nuclear power program. I will submit legislation to expedite nuclear licensing and the rapid selection of sites.

In recent months, utilities have cancelled or postponed over 60 percent of planned nuclear expansion and 30 percent of planned additions to non-nuclear capacity. Financing problems for that industry are growing worse. I am therefore recommending that the one year investment tax credit of 12 percent be extended an additional two years to specifically speed the construction of power plants that do not use natural gas or oil. I am also submitting proposals for selective changes in State utility commission regulations.

To provide the critical stability for our domestic energy production in the face of world price uncertainty, I will request legislation to authorize and require tariffs, import quotas or price floors to protect our energy prices at levels which will achieve energy independence.

Increasing energy supplies is not enough. We must also take additional steps to cut long-term consumption. I therefore propose:

-- Legislation to make thermal efficiency standards mandatory for all new buildings in the United States. These standards would be set after appropriate consultation with architects, builders and labor.

-- A new tax credit of up to $150 for those home owners who install insulation equipment.

-- The establishment of an energy conservation program to help low income families purchase insulation supplies.

-- Legislation to modify and defer automotive pollution standards for 5 years to enable us to improve new automobile gas mileage 40 percent by 1980.

These proposals and actions, cumulatively, can reduce our dependence on foreign energy supplies to 3-5 million barrels per day by 1985. To make the United States invulnerable to foreign disruption, I propose standby emergency legislation and a strategic storage program of 1 billion barrels of oil for domestic needs and 300 million barrels for defense purposes.

I will ask for the funds needed for energy research and development activities. I have established a goal of 1 million barrels of synthetic fuels and shale oil production per day by 1985 together with an incentive program to achieve it.

I believe in America's capabilities. Within the next ten years, my program envisions:

-- 200 major nuclear power plants,

-- 250 major new coal mines,

-- 150 major coal-fired power plants,

-- 30 major new oil refineries,

-- 20 major new synthetic fuel plants,

-- the drilling of many thousands of new oil wells,

-- the insulation of 18 million homes,

-- and construction of millions of new automobiles, trucks and buses that use much less fuel.

We can do it. In another crisis -- the one in 1942 -- President Franklin D. Roosevelt said this country would build 60,000 aircraft. By 1943, production had reached 125,000 airplanes annually.

If the Congress and the American people will work with me to attain these targets, they will be achieved and surpassed.

From adversity, let us seize opportunity. Revenues of some $30 billion from higher energy taxes designed to encourage conservation must be refunded to the American people in a manner which corrects distortions in our tax system wrought by inflation.

People have been pushed into higher tax brackets by inflation with a consequent reduction in their actual spending power. Business taxes are similarly distorted because inflation exaggerates reported profits resulting in excessive taxes.

Accordingly, I propose that future individual income taxes be reduced by $16.5 billion. This will be done by raising the low income allowance and reducing tax rates. This continuing tax cut will primarily benefit lower and middle income taxpayers.

For example, a typical family of four with a gross income of $5,600 now pays $185 in Federal income taxes. Under this tax cut plan, they would pay nothing. A family of four with a gross income of $12,500 now pays $1,260 in Federal taxes. My plan reduces that by $300. Families grossing $20,000 would receive a reduction of $210.

Those with the very lowest incomes, who can least afford higher costs, must also be compensated. I propose a payment of $80 to every person 18 years of age and older in that category.

State and local governments will receive $2 billion in additional revenue sharing to offset their increased energy costs.

To offset inflationary distortions and to generate more economic activity, the corporate tax rate will be reduced from 48 percent to 42 percent.

Now, let me turn to the international dimension of the present crisis. At no time in our peacetime history has the state of the Nation depended more heavily on the state of the world. And seldom if ever has the state of the world depended more heavily on the state of our Nation.

The economic distress is global. We will not solve it at home unless we help to remedy the profound economic dislocation abroad. World trade and monentary structure provides markets, energy, food and vital raw materials -- for all nations. This international system is now in jeopardy.

This Nation can be proud of significant achievements in recent years in solving problems and crises. The Berlin Agreement, the SALT agreements, our new relationship with China, the unprecedented efforts in the Middle East -- are immensely encouraging. But the world is not free from crisis. In a world of 150 nations, where nuclear technology is proliferating and regional conflicts continue, international security cannot be taken for granted.

So let there be no mistake about it: international cooperation is a vital fact of our lives today. This is not a moment for the American people to turn inward. More than ever before, our own well-being depends on America's determination and leadership in the world.

We are a great Nation -- spiritually, politically, militarily, diplomatically and economically. America's commitment to international security has sustained the safety of allies and friends in many areas -- in the Middle East, in Europe, in Asia. Our turning away would unleash new instabilities and dangers around the globe which would, in turn, threaten our own security.

At the end of World War II, we turned a similar challenge into an historic achievement. An old order was in disarray; political and economic institutions were shattered. In that period, this Nation and its partners built new institutions, new mechanisms of mutual support and cooperation. Today, as then, we face an historic opportunity. If we act, imaginatively and boldly, as we acted then, this period will in retrospect be seen as one of the great creative moments of our history.

The whole world is watching to see how we respond.

more

A resurgent American economy would do more to restore the confidence of the world in its own future than anything else we can do. The program that this Congress will pass can demonstrate to the world that we have started to put our own house in order. It can show that this Nation is able and willing to help other nations meet the common challenge. It can demonstrate that the United States will fulfill its responsibility as a leader among nations.

At stake is the future of the industrialized democracies, which have perceived their destiny in common and sustained it in common for 30 years.

The developing nations are also at a turning point. The poorest nations see their hopes of feeding their hungry and developing their societies shattered by the economic crisis. The long-term economic future for the producers of raw materials also depends on cooperative solutions.

Our relations with the Communist countries are a basic factor of the world environment. We must seek to build a long-term basis for coexistence. We will stand by our principles and our interests; we will act firmly when challenged. The kind of world we want depends on a broad policy of creating mutual incentives for restraint and for cooperation.

As we move forward to meet our global challenges and opportunities, we must have the tools to do the job.

Our military forces are strong and ready. This military strength deters aggression against our allies, stabilizes our relations with former adversaries and protects our homeland. Fully adequate conventional and strategic forces cost many billions, but these dollars are sound insurance for our safety and a more peaceful world.

Military strength alone is not sufficient. Effective diplomacy is also essential in preventing conflict and building world understanding. The Vladivostok negotiations with the Soviet Union represent a major step in moderating strategic arms competition. My recent discussions with leaders of the Atlantic Community, Japan and South Korea have contributed to our meeting the common challenge.

But we have serious problems before us that require cooperation between the President and the Congress. By the Constitution and tradition, the execution of foreign policy is the responsibility of the President.

more

(OVER)

567-462 O - 75 - 2

In recent years, under the stress of the Vietnam War, legislative restrictions on the President's capability to execute foreign and military decisions have proliferated. As a member of the Congress, I opposed some and approved others. As President, I welcome the advice and cooperation of the House and Senate.

But, if our foreign policy is to be successful we cannot rigidly restrict in legislation the ability of the President to act. The conduct of negotiations is ill suited to such limitations. For my part, I pledge this Administration will act in the closest consultations with the Congress as we face delicate situations and troubled times throughout the globe.

When I became President only five months ago, I promised the last Congress a policy of communication, conciliation, compromise and cooperation. I renew that pledge to the new members of this Congress.

To sum up:

America needs a new direction which I have sought to chart here today -- a change of course which will:

-- put the unemployed back to work;

-- increase real income and production;

-- restrain the growth of government spending;

-- achieve energy independence; and

-- advance the cause of world understanding.

We have the ability. We have the know-how. In partnership with the American people, we will achieve these objectives.

As our 200th anniversary approaches, we owe it to ourselves, and to posterity, to rebuild our political and economic strength. Let us make America, once again, and for centuries more to come, what it has so long been -- a stronghold and beacon-light of liberty for the world.

GERALD R. FORD

THE WHITE HOUSE,

January 15, 1975.

# # # #

EMBARGOED FOR RELEASE
UNTIL 1:00 P.M., EST

JANUARY 15, 1975

EMBARGOED FOR WIRE TRANSMISSION
UNTIL 10:00 A.M., EST

Office of the White House Press Secretary

- -

THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S STATE OF THE UNION MESSAGE

more

(OVER)

more

The President's Economic and Tax Program

The President's State of the Union Address outlined the nation's current economic situation and outlook, and his economic and tax program which are designed to wage a simultaneous three-front campaign against recession, inflation and energy dependence.

BACKGROUND

The U.S. economy is faced with the closely linked problems of inflation and recession. During 1974, the economy experienced the highest rate of inflation since World War II. Late in 1974, when a recession set in, unemployment rose sharply to over 7 percent, the highest level in 13 years.

Accelerated inflation had its roots in the policies of the past and several recent developments not subject to U.S. control. Specifically:

-- Excessive Federal spending and lending for over a decade and too much money and credit growth.

-- Unusually poor harvests contributed heavily to world-wide food shortages and escalating food prices.

-- World petroleum product prices increased dramatically due to the Arab nations' embargo on shipments of oil to the U.S., the quadrupling of the price of crude oil by the OPEC nations, and their sharp reductions in crude oil production to maintain higher prices. Higher energy prices were passed through in the prices of other products and services.

-- The decline in U.S. domestic production of oil and natural gas that began in the 1960's also contributed to higher energy prices.

more

(OVER)

--- An economic boom occurred simultaneously in the industrialized nations of the world.

--- There were two international devaluations of the dollar.

Inflation contributed strongly to the forces of recession:

--- The real purchasing power of workers' paychecks was reduced.

--- Inflation also reduced consumer confidence, contributing to the most severe slump in consumer purchasing since World War II.

--- Inflation forced interest rates to very high levels, draining funds out of financial institutions that supply most mortgage loans and thus sharply reducing construction of homes.

--- Federal Government spending and lending programs, accounting for over half the funds raised in capital markets, reduced the amount of money available for capital investments needed to raise productivity and increase living standards.

CURRENT SITUATION AND NEAR-TERM OUTLOOK

The economy is now in a full-fledged recession and unemployment will rise further. Inflation continues at a rapid pace and the need to take immediate steps to conserve energy will further complicate the problem initially.

There are no instant cures. A careful and balanced policy approach is required. It will take time to yield full results. There is, however, no prospect of a long and deep economic downturn on the scale of the 1930's.

more

MAJOR ELEMENTS OF THE PRESIDENT'S ECONOMIC AND TAX PROGRAM

I. A $16 Billion Temporary, Anti-Recession Tax Reduction. This major reduction in taxes proposed for individuals and businesses is designed to restore consumer confidence and promote a recovery of production and employment. The recession is deeper and more widespread than expected earlier, but the tax reduction -- together with the easing of monetary conditions that has already taken place -- will support a healthy economic recovery. The tax reduction must be temporary to avoid excessive stimulus resulting in a new price explosion and congested capital markets. The temporary nature of the reduction is consistent with the long-term economic goals of achieving and maintaining reasonable price stability and raising the share of national output devoted to saving and capital formation.

II. Energy Taxes and Fees. Energy excise taxes and fees on petroleum and natural gas will reduce use of these energy sources and reduce the nation's need for importing expensive and insecure foreign oil. Removal of price controls from domestic crude oil (together with other energy actions) will encourage domestic oil production. A windfall profits tax would recover windfall profits resulting from crude oil decontrol. Energy taxes and fees are expected to raise $30 billion in new Federal revenues on an annual basis.

III. Permanent Tax Reduction Made Possible By Energy Taxes and Fees. The $30 billion annual revenue from energy conservation excise taxes and fees and the windfall profits tax on crude oil would be returned to the economy through a major tax cut, a cash payment for non-taxpayers, and direct distribution to governmental units. Tax reductions are designed to go mainly to low-and middle-income taxpayers.

more

(OVER)

IV. One Year Moratorium on New Federal Spending Programs. The moratorium on new spending programs proposed by the President will permit the Federal Government to move toward long-term budget responsibility and to avoid refueling inflation when the economy begins rising again.

V. Budget Reductions. The President will propose significant spending reductions in his Fiscal Year 1976 Budget. The reductions total more than $17 billion, including $7.8 billion savings from reductions proposed last year and $6.1 billion from the 5 percent ceiling to be proposed on Federal employee pay increases and on Federal benefit programs that rise automatically with the Consumer Price Index.

more

SPECIFIC PROPOSALS ANNOUNCED BY THE PRESIDENT

I. A Temporary, Anti-Recession Tax Cut of $16 Billion. The President proposed a temporary, tax reduction of approximately $16 billion to provide prompt stimulus to consumer spending and business investment. The tax cut is divided 75 percent to individuals and 25 percent to corporations, which is approximately the ratio that individual income taxes bear to corporate income taxes. The cuts would be:

A. A Tax Reduction for Individuals of $12 Billion.

1. Individuals will receive a cash refund equal to 12 percent of their 1974 tax liabilities, as reported on their 1974 tax returns now being filed, up to a limit of $1,000. Married couples filing separately would receive a maximum refund of $500 each.

2. The temporary reduction will be a uniform 12 percent for all taxpayers up to about the $41,000 income level where the $1,000 maximum takes effect, and will then be a progressively smaller percentage for taxpayers above that level.

3. The refund will be paid in two equal installments in 1975 with payments of the first installment beginning in May and the second in September.

4. The proposal does not affect in any way the manner in which taxpayers complete and file their 1974 tax returns. They will file and pay their tax in accordance with existing law, without regard to the tax reduction. Later they will receive their refund checks from the Internal Revenue Service. Because no changes in deductions and other such items are involved, the Internal Revenue Service will be able to determine the amount of the refund and mail the checks without requiring further forms and computations from taxpayers.

more

(OVER)

5. The effect of the tax refund can be illustrated for a family of four as follows:

Adjusted Gross Income	Present Tax	Proposed Refund	Percent Saving
$ 5,000	$ 98	$ 12	-12.0%
7,000	402	48	-12.0%
10,000	867	104	-12.0%
12,500	1,261	151	-12.0%
15,000	1,699	204	-12.0%
20,000	2,660	319	-12.0%
40,000	7,958	955	-12.0%
50,000	11,465	1,000	- 8.7%
60,000	15,460	1,000	- 6.5%
100,000	33,340	1,000	- 3.0%
200,000	85,620	1,000	- 1.2%

Although the taxpayer will not figure his own refund, it is a simple matter for him to anticipate how much the Internal Revenue Service will be sending him, by calculating 12 percent of his total tax liability for the year (on Form 1040 for 1974, it is line 18, page 1, and on Form 1040A, line 19).

B. A Temporary Increase in Investment Tax Credit for Business and Farmers of $4 billion.

1. There will be an increase for one year in the investment tax credit to 12 percent for all taxpayers, including utilities (which presently have, in effect, a 4 percent credit). Utilities will continue to receive a 12 percent credit for two additional years for qualified investment in electrical power plants other than oil-or gas-fired facilities.

2. This increase in the credit will provide benefits of $4 billion in 1975 to immediately stimulate job-creating investment. (In view of the need for speedy enactment and the temporary nature of the increased credit, this change does not include the basic re-structuring of the credit as proposed on a permanent basis in October, 1974.)

3. With respect to utilities, it includes a temporary increase in the amount of credit which may be used to offset income tax. Under current law, not more than 50 percent of the income tax liability for the year may be offset by the investment credit. Since many utilities have credits they have been unable to use because of this limitation, under this proposal utilities will be permitted to use the credit to offset up to 75 percent of their tax liability for 1975, 70 percent for 1976, 65 percent for 1977 and so on, until 1980, when they will in five annual steps have returned to the 50 percent limitation applicable to industry generally.

4. The 12 percent credit will apply to property placed in service during 1975 and to property ordered during 1975 if placed in service before the end of 1976. The credit will also be available to the extent of construction, reconstruction or erection of property by or for a taxpayer during 1975, without regard to the date ultimately placed in service. Similar rules will apply to investment in electrical power plants other than oil-or gas-fired facilities, for which the 12 percent credit will continue through 1977.

II. Energy Conservation Taxes and Fees. Energy taxes and fees, in conjunction with domestic crude oil price decontrol and the proposed windfall profits tax, would raise about $30 billion on an annual basis. The fees and taxes and related actions (discussed more fully in Part Two of this Fact Sheet) include:

A. Administrative Actions.

1. Import Fee -- The President is acting immediately within existing authorities to increase import fees on crude oil and petroleum products. These new import fees will be modified upon passage of the President's legislative package.

(a) Import fees on crude oil and petroleum products will be increased by $1 effective February 1, 1975; an additional $1 effective March 1; and another $1 effective April 1, for a total increase of $3.00 per barrel. Currently existing fees will also remain in effect.

(b) FEA's "Old Oil Entitlements" program will be utilized to spread price increases on crude among all refiners, and to lessen disproportionate regional effects, such as New England, or in any specific industries or areas of human need where oil is essential.

(c) As of February 1975, product imports will cease to be covered by FEA's "Old Oil Entitlements" program. In order to overcome any severe regional impacts that could be caused by large fees in import dependent areas, imported products will receive a fee rebate corresponding to the benefit which would have been obtained under that program. The rebate should be approximately $1.00 in February, $1.40 in March, and $1.80 per barrel thereafter.

(d) The import fee program will reduce imports by an estimated 500,000 barrels per day and generate about $400 million per month in revenues by April.

2. Crude Oil Price Decontrol -- To stimulate domestic production and further cut demand, steps will be taken to remove price controls on domestic crude oil by April 1, 1975, subject to congressional disapproval as provided by §4(g) of the Emergency Petroleum Allocation Act of 1973.

3. Control of Imports -- The energy conservation measures to be imposed administratively outlined above, the energy conservation taxes outlined below and other energy conservation measures covered in Part Two below, will be supplemented by the use of Presidential power to limit oil imports as necessary to fully achieve the President's goals of reducing foreign oil imports by one million barrels a day by the end of 1975 and by two million barrels before the end of 1977.

B. Taxes Proposed to the Congress. The President asked the Congress to pass within 90 days a comprehensive energy conservation tax program which will raise an estimated $30 billion in revenues on an annual basis. The taxes proposed are:

1. Petroleum Excise Tax and Import Fee -- An excise tax on all domestic crude oil of $2 per barrel and a fee on imported crude oil and product imports of $2 per barrel.

2. Natural Gas Excise Tax -- An excise tax on natural gas of 37¢ per thousand cubic feet (mcf), the equivalent on a Btu basis to the $2 per barrel petroleum excise tax and import fee.

3. Windfall Profits Tax -- To ensure that the end of controls on crude oil prices does not result in one sector of the economy benefitting unfairly at the expense of other sectors, a windfall profits tax will be levied on the profits realized by producers of domestic oil. This tax is intended to recapture excessive profits which would otherwise be realized by producers as a result of the rise in international oil prices. This tax does not itself cause price increases, but simply recaptures the profits from price increases otherwise induced. It will, together with the income tax on such profits, produce revenues of approximately $12 billion. In aggregate, the windfall profits tax is sufficient to absorb all the profits that would otherwise flow from decontrolling oil prices, plus an additional $3 billion. More specifically the tax will operate as follows:

(a) A windfall profits tax at rates graduated from 15 percent to 90 percent will be imposed on that portion of the price per barrel that exceeds the producer's adjusted base price and therefore represents a windfall profit. The initial "adjusted base price" will be the producer's ceiling price per barrel on December 1, 1973 plus 95 cents to adjust for subsequent increased costs and higher price levels generally. Each month the bases will be adjusted upward on a specified schedule, which will gradually raise the adjusted base price to reflect long-run supply conditions and provide the incentive for new investment in petroleum exploration. Percentage depletion will not be allowed on the windfall profits tax liability.

(b) The windfall profits tax rates will be applied to prices per barrel in excess of applicable adjusted base prices as follows:

567-462 O - 75 - 3

Portion of price per barrel in excess of base and subject to tax	Amount of tax
Less than $0.20	15% of amount within bracket
$0.20, under $0.50	$0.03 plus 30% of amount within bracket
$0.50, under $1.20	$0.12 plus 60% of amount within bracket
$1.20, under $3.00	$0.54 plus 80% of amount within bracket
$3.00 and over	$1.98 plus 90% of amount within bracket

(c) The windfall profits tax does not include a "plowback" provision, nor does it contain exemptions for classes of production or producers. It does, however, include the limitation that the amount subject to tax may not exceed 75 percent of the net income from the barrel of crude oil. The tax will be retroactive to January 1, 1975.

(d) The windfall profits tax reduces the base for the depletion allowance.

III. Permanent Tax Reductions and Payments to Non-Taxpayers Made Possible by Energy Conservation Taxes.

Of the $30 billion in revenue raised annually by the proposed conservation taxes outlined above, about $5 billion is paid by governments through the higher costs of energy in their purchases. This $5 billion includes:

$3 billion by the Federal government.
$2 billion by state and local governments.

The President is proposing to the Congress that $2 billion of the revenues be paid to State and local governments, pursuant to the distribution formulas applicable to general revenue sharing. The other $25 billion will be returned to the economy mostly in the form of tax cuts. As in the case of the temporary tax reduction, this permanent change will be divided between individuals and corporations on a 75-25 percent basis, about $19 billion for individuals and about $6 billion for corporations. Specifically, this would include:

A. Reductions for Individuals in 1975 -- Tax cuts for individuals will be achieved in two ways: (1) through an increase in the Low Income Allowance and (2) a cut in the schedule of tax rates. In this way, tax-paying individuals will receive a reduction of approximately $16 1/2 billion, with proportionately larger cuts going to low-and middle-income families. The Low Income Allowance will be increased from the present $1,300 level to $2,600 for joint returns and $2,000 for single returns. That will bring the level at which returns are nontaxable to what is approximately the current "poverty level" of $5,600 for a family of 4. In addition, the tax rates applicable to various brackets of income will be reduced. The aggregate effects of these changes are as follows:

(1975 Levels)
($billions)

Adjusted Gross Income Class ($000)	Income Tax Paid Under Present Law	Amount of Income Tax Reduction	Percentage Reduction in Income Tax (..... % .....)
0 - 3	3	- .25	-83.3%
3 - 5	1.8	- 1.20	-66.7
5 - 7	4.0	- 1.96	-49.0
7 - 10	8.9	- 3.38	-38.0
10 - 15	21.9	- 4.72	-21.6
15 - 20	22.8	- 2.70	-11.8
20 - 50	44.4	- 2.15	- 4.8
50 - 100	13.5	- .11	- 0.8
100 and over	13.3	- .03	- 0.2
Total	130.9	-16.50*	-12.6

*Does not include payments to nontaxpayers

The effect of these tax changes can be illustrated for a family of 4, as follows:

Adjusted Gross Income	Present Tax 1/	New Tax	Tax Saving	Percent Saving
$ 5,600	$ 185	$ 0	$185	100.0%
7,000	402	110	292	72.6
10,000	867	518	349	40.3
12,500	1,261	961	300	23.8
15,000	1,699	1,478	221	13.0
20,000	2,660	2,450	210	7.9
30,000	4,988	4,837	151	3.0
40,000	7,958	7,828	130	1.6

1/ Calculated assuming Low Income Allowance or itemized deductions equal to 17 percent of income, whichever is greater.

B. Residential Conservation Tax Credit (Discussed in the Energy Section of this Fact Sheet). The President seeks legislation to provide incentives to homeowners for making thermal efficiency improvements, such as storm windows and insulation, in existing homes. This measure, along with a stepped-up public information program, could save the equivalent of over 500,000 barrels of oil per day by 1985. Under this legislation:

more

1. A 15 percent tax credit retroactive to January 1, 1975 for the cost of certain improvements in thermal efficiency in residences would be provided. Tax credits would apply to the first $1,000 of expenditures and can be claimed during the next three years.

2. At least 18 million homes could qualify for these tax benefits, estimated to total about $500 million annually in tax credits.

C. Payments to Nontaxpayers of $2 billion. The final component of the $19 billion distribution to individuals is a distribution of nearly $2 billion to nontaxpayers and certain low-income taxpayers. For this low-income group, a special distribution of $80 per adult will be provided, as follows:

1. Adults who would pay no tax even without the tax reductions in A above, will receive $80.

2. Adults who receive less than $80 in such tax reductions will receive approximately the difference.

3. Persons not otherwise filing returns but eligible for these special distributions will make application on simple forms provided by the Internal Revenue Service on which they would furnish their name, address, social security number, and income.

4. For purposes of the special distribution, "adults" are individuals who during the year are at least 18 years old and who are not eligible to be claimed as a dependent under the Federal income tax laws.

5. Since most taxpayers will receive their 1975 income tax reductions in 1975 through reductions in withholding on wages and estimated tax payments, the special distribution to non-taxpayers and low-income

more

(OVER)

taxpayers will also begin in 1975. It is anticipated that disbursement, based on 1974 income can be made in the summer of 1975.

D. Tax Reductions for Corporations. The corporate rate will be reduced by 6 percentage points, effectively lowering the corporate rate from 48 percent to 42 percent for 1975. The resulting benefit in 1975 is estimated at about $6 billion.

IV. Moratorium on New Federal Spending Programs. The President announced that he would propose no new Federal spending programs except for energy. He also indicated that he would not hesitate to veto any new spending programs passed by the Congress. The need for the moratorium is demonstrated by preliminary FY 1976 Budget estimates:

	Fiscal Years			Percent Change	
	1974	1975	1976	75/74	76/75
Revenues	264.9	280	303	5.7%	8.2%
Outlays	268.4	314	349	17 %	11.1%
Deficit	-3.5	32-34	45-47	--	--

NOTE: Estimates for 1975 and 1976 are subject to a variation of $2 billion in the final budget.

V. Budget Reductions. The budget figures shown above assume that significant budget reductions proposed by the President are effected. Including reductions proposed in a series of special messages sent to the last session of Congress, these budget reductions total more than $17 billion. Of this total, over $6 billion will result from the proposed 5% ceiling on Federal pay increases and on those Federal benefit programs that rise automatically with the Consumer Price Index.

The following summarizes reductions in 1976 spending to be included in the upcoming budget:

	(Outlays in billions)
Effect of budget reductions proposed last year (including administrative actions)	$8.9
Amounts overturned by the Congress	-1.1
Remaining savings	7.8
Further reductions to be proposed:	
Ceiling of 5% on Federal pay and programs tied to the CPI	6.1
Other actions planned . . .	3.6
Total reductions	17.5

The following lists those programs to which the 5% ceiling will apply and shows spending amounts for them:

Effect of 5% Ceiling on Pay Increases and Programs Tied to CPI
(Fiscal year estimates; Dollars in billions)

Programs Affected	1975 Outlays	1976 Outlays Without ceiling	1976 Outlays With ceiling	Difference 1975-1976 (with ceiling)
Social security ..	64.5	74.3	71.8	+7.3
Railroad retirement	3.0	3.4	3.3	+0.3
Supplemental Security Income	4.7	5.5	5.4	+0.7
Civil service and military retirement payments	13.5	16.2	14.9	+1.4
Foreign Service retirement ...	.1	.1	.1	*
Food stamp program	3.7	3.9	3.6	-0.1
Child nutrition	1.3	1.8	1.6	+0.3
Federal salaries:				
Military	23.2	23.1	22.5	-0.7
Civilian	35.5	38.9	38.0	+2.5
Coal miner benefits	1.0	1.0	1.0	*
Total	150.5	168.2	162.1	+11.7

* Less than $50 million.

The 5% ceiling will take into account increases that have already occurred since January 1, 1975. Under the plan, after June 30, 1976, adjustments would be resumed in the same way as before the establishment of the 5% ceiling. However, no catchup of the increases lost under the ceiling would take place.

more

SUMMARY OF THE BUDGET IMPACT OF THE NEW TAXES AND FEES AND THE TAX CUTS

The following table summarizes the estimated direct budget impact, on a full-year-effective basis, of the tax and related changes proposed by the President to deal with the economic and energy situations:

Revenue Raising Measures	Estimated Amounts ($ billions)
Oil excise tax and import fee	+ 9 1/2
Natural gas excise tax	+ 8 1/2
Windfall Profits tax	+12
Total	+30

more

(OVER)

Revenue Disbursing Measures	Estimated Amounts ($ billions)
Energy rebates:	
Income tax cuts, individuals	-16 1/2
Residential tax credit	- 1/2
Nontaxpayer distribution	- 2
Corporate tax cut	- 6
State and local governments	- 2
Federal government costs	- 3
Subtotal	-30
Temporary economic stimulus:	
Individual tax refunds	-12
Investment credit increase	- 4
Subtotal	-16
Total Revenue Disbursing Measures	46

The tax and related changes will go into effect at different times, but all of them during the year 1975:

-- The energy conservation taxes are proposed to go into effect April 1.

-- The increase in import fees would go into effect

- $1 per barrel February 1.
- To $2 per barrel March 1.
- To $3 per barrel, if the energy taxes have not been enacted, April 1.

-- The windfall profits tax on crude oil would be effective as of January 1, 1975. First payments of the tax would be made in the third quarter.

-- The permanent tax cuts for individuals and corporations made possible by the revenues from the energy conservation taxes would be effective as of January 1, 1975. The changes in withholding rates for individuals are expected to go into effect on June 1. The withholding changes will be adjusted so that 12 months reduction is accomplished in the 7 months from June through December.

more

-- The tax credit for energy-saving improvements to existing residences would go into effect as of January 1, 1975.

-- The special distribution to nontaxpayers is expected to be paid out in the summer of 1975.

-- The $2 billion distribution to State and local governments would be effective with the second quarter of 1975.

-- The temporary anti-recession tax cut for individuals will be paid out in two installments, in the second and third quarters.

-- The one-year increase in the investment tax credit becomes effective retroactively to January 1, 1975.

The timing of the various changes suggests a pattern of direct budget changes as follows. The timing of the economic stimulus or restraint will depend, as well on such factors as the indirect effects of the budget changes, the timing of the pass-through of higher energy costs to final users, the extent to which the changes are anticipated, and a variety of monetary and financial developments that arise out of these changes.

Timing of Direct Budget Impact

($ billions)

	Calendar Years							
	1975				1976			
	I	II	III	IV	I	II	III	IV
Energy Taxes	+0.2	+4.1	+12.6	+7.6	+7.6	+7.5	+7.5	+7.5
Return of Energy Revenues to Economy								
Tax Reduction	.0	-3.2	- 9.0	-9.0	-5.6	-7.9	-6.3	-6.4
Nontaxpayers			- 2.0				-2.0	
S&L Gov'ts	.0	-0.5	- 0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Federal Govt.	.0	.0	- 0.8	-0.7	-0.8	-0.7	-0.8	-0.7
Temporary Tax Cut	.0	-6.1	- 7.9	-0.6	-0.8	-0.9	0	0
Net Effect	+0.2	-5.7	- 7.6	-3.2	-0.1	-2.5	-2.1	-0.1

more

(OVER)

INFLATION IMPACT

Both major parts of the tax package require inflation impact analysis. The excise taxes on crude oil and natural gas, combined with the tariff and decontrol of prices of both "old" oil and new natural gas, will add to the general price level immediately. The consumer price index is expected to rise by about two percent when these tax and price increases go into effect. However, this increase has a one-time impact on the price level that, with exceptions in some areas, should not add materially to inflationary pressures in future years.

The inflationary impact of the $16 billion anti-recession tax cut is more difficult to assess. While some economists may argue that a tax cut will add to the rate of inflation during the year ahead, others would contend that under present economic conditions, with unemployment high and many factories operating well below capacity, the predominant effect of the tax cut will be to stimulate spending, and that additional spending will have only a slight impact on prices.

Whatever the precise price impact of this $16 billion tax cut during 1975, the most important fact about it from the standpoint of inflation is that it is temporary. With the recession still under way, the rate of inflation will be coming down -- it will be too high, but nevertheless moving in the right direction. After the economy gets well into recovery, however, too much stimulus would be sure to reverse the slowing of the inflation rate and, indeed, start a new acceleration. Thus, the tax stimulus must be temporary rather than permanent.

The President has declared a moratorium on new Federal spending programs for this same reason. Budget expenditures are rising rapidly this year, in part, because of programs to aid the unemployed. That is acceptable and highly desirable in a recession to relieve the burden on workers who are affected. It is also desirable because spending under those programs phases out as the economy recovers and unemployment falls. The increased Federal spending is only temporary.

Over the long-term, however, both Federal spending and lending have been rising much too fast, a fact that accounts for a substantial part of our current economic problems. A new burst of expenditure programs cannot

help the Nation recover from the current recession -- the impact would come much too late -- but it would surely do much inflationary harm as the economy returns to prosperous conditions in the years ahead. Therefore, at the same time that taxes are being reduced to support a healthy recovery, policies that would revive inflationary pressures must be avoided after the recovery is underway. The size of currently projected Federal budget deficits precludes introduction of new spending programs now that would raise inflationary pressures later. For this reason, the President requested that no new spending programs, except as needed in the energy area, be enacted so that we can regain control of the budget over the long-run and permit a gradual return to reasonable price stability.

PRESIDENTIAL PROPOSALS OF OCTOBER 8, 1974 RESUBMITTED FOR CONGRESSIONAL ACTION

In addition to the comprehensive set of economic and energy policies discussed in the State of the Union Message, the President asked that the new Congress pass quickly certain legislative proposals originally requested in his October 8, 1974, message. Those proposals would:

1. Remove restrictions on the production of rice, peanuts, and extra-long-staple cotton.

2. Amend P.L. 480 to waive certain restrictions on shipments of food under that Act to needy countries for national interest or humanitarian reasons.

3. Amend the Antitrust Civil Process Act to strengthen the investigation powers of the Antitrust Division of the Department of Justice.

4. Eliminate the U.S. Withholding tax on foreign portfolio investments to encourage such investment.

5. Allow dividends paid on qualified preferred stock to be an authorized deduction for determining corporate income taxes to increase incentives for raising needed capital in the form of equity rather than debt.

6. Create a National Commission on Regulatory Reform and take prompt action on other reforms of regulatory and administrative procedures that will be recommended in the future.

567-462 O - 75 - 4

7. Strengthen our financial institutions and provide a new tax incentive for investment in residential mortgages.

8. Permit more competition between different modes of surface transportation (The Surface Transportation Act).

9. Amend the Employment Act of 1946 to make explicit the goal of price stability. (Substitute "to promote maximum employment, maximum production, and stability of the general price level" in place of the present language, "to promote maximum employment, production and purchasing power.")

more

The President's Energy Program
(including energy taxes and fees)

The President's State of the Union Address outlined the Nation's energy outlook, set forth national energy policy objectives, and described actions he is taking immediately and indicated proposals he is asking the Congress to pass.

BACKGROUND

Over the past two years, progress has been made in conserving energy, expanding energy R&D and improving Federal government energy organization. Despite such accomplishments, we have not succeeded in solving fundamental problems and our National energy situation is critical. Our reliance on foreign sources of petroleum is contributing to both inflationary and recessionary pressures in the United States. World economic stability is threatened and several industrialized nations dependent upon imported oil are facing severe economic disruption.

With respect to the U.S. energy situation:

-- Petroleum is readily available from foreign sources -- but at arbitrarily high prices, causing massive outflow of dollars, and at the risk of increasing our Nation's vulnerability to severe economic disruption should another embargo be imposed.

  - Petroleum imports remain at high levels even at present high prices.

  - Domestic oil production continues to decline as older fields are depleted and new fields are years from production; 8.8 million barrels per day in 1974 compared to 9.2 million in 1973.

  - Total U.S. petroleum consumption is increasing, although at slower rates due to higher prices.

-- Natural gas shortages are forcing curtailment of supplies to many industrial firms and denial of service to new residential customers. (14% expected this winter versus 7% last year.) This is resulting in unemployment, reductions in the production of fertilizer needed to increase food supplies, and increased demand for alternative fuels -- primarily imported oil.

more (OVER)

-- Coal production is at about the same level as in the 1930's.

-- Nuclear energy accounts for only 1 percent of total energy supply and new plants are being delayed, postponed or cancelled.

-- Overall energy consumption is beginning to increase again.

-- U.S. vulnerability to economic and social impact from an embargo increases with higher imports and will continue to do so until we reverse current trends, ready standby plans, and increase petroleum storage.

Economic impacts of the four-fold increase in OPEC oil prices include:

-- Heavy outflow of U.S. dollars (and, in effect, jobs) to pay for growing oil imports -- about $24 billion in 1974 compared to $2.7 billion in 1970.

-- Tremendous balance of payments deficits and possible economic collapse for those nations of Europe and Asia that must depend upon expensive imported oil as a primary energy source.

-- Accumulation of billions of dollars of surplus revenues in oil exporting nations -- approximately $60 billion in 1974 alone.

U.S. ENERGY OUTLOOK

I. Near-Term (1975-1977): In the next 2-3 years, there are only a few steps that can be taken to increase domestic energy supply particularly due to the long lead time for new production. Oil imports will thus continue to rise unless demand is curbed.

II. Mid-Term (1975-1985): In the next ten years, there is greater flexibility. A number of actions can be taken to increase domestic supply, convert from foreign oil to domestic coal and nuclear energy, and reduce demand -- if the Nation takes tough actions. Vulnerability to an embargo can be eliminated.

more

III. Long-Term (Beyond 1985): Emerging energy sources can play a bigger role in supplying U.S. needs -- the results of the Nation's expanded energy research and development program. U.S. independence can be maintained. New technologies are the most significant opportunity for other consuming nations with limited domestic resources.

NATIONAL ENERGY POLICY GOALS AND PRINCIPLES ANNOUNCED BY THE PRESIDENT

I. Near-Term (1975-1977): Reduce oil imports by 1 million barrels per day by the end of 1975 and 2 million barrels by the end of 1977, through immediate actions to reduce energy demand and increase domestic supply.

(A) With no action, imports would be about 8 million barrels per day by the end of 1977, more than 20 percent above the 1973 pre-embargo levels.

(B) Acting to meet the 1977 goal will reduce imports below 1973 levels, assuring reduced vulnerability from an embargo and greater consumer nation cooperation.

(C) More drastic short-term reductions would have unacceptable economic impacts.

II. Mid-Term (1975-1985): Eliminate vulnerability by achieving the capacity for full energy independence by 1985. This means 1985 imports of no more than 3-5 million barrels of oil per day, all of which can be replaced immediately from a strategic storage system and managed with emergency measures.

(A) With no action, oil imports by 1985 could be reduced to zero at prices of $11 per barrel or more -- or they could go substantially higher if world oil prices are reduced (e.g., at $7 per barrel, U.S. consumption could reach 24 million barrels per day with imports of above 12 million, or above 50% of the total.)

(B) The U.S. anticipates a reduction in world oil prices over the next several years. Hence, plans and policies must be established to achieve energy independence even at lower prices -- countering the normal tendency to increase imports as the price declines.

more

(OVER)

(C) Actions to meet the 1985 goal will hold imports to no more than 3-5 million barrels per day even at $7 per barrel prices. Protection against an embargo of the remaining imports can then be handled most economically with storage and standby emergency measures.

III. Long-Term (Beyond 1985): Within this century, the U.S. should strive to develop technology and energy resources to enable it to supply a significant share of the Free World's energy needs.

(A) Other consuming nations have insufficient fossil fuel resources to reach domestic energy self-sufficiency.

(B) The U.S. can again become a world energy supplier and foster world energy price stability -- much the same as the nation did prior to the 1960's when it was a major supplier of world oil.

IV. Principles: Actions to achieve the above national energy goals must be based upon the following principles:

-- Provide energy to the American consumer at the lowest possible cost consistent with our need for secure energy supplies.

-- Make energy decisions consistent with our overall economic goals.

-- Balance environmental goals with energy requirements.

-- Rely upon the private sector and market forces as the most efficient means of achieving the Nation's goals, but act through the government where the private sector is unable to achieve our goals.

-- Seek equity among all our citizens in sharing of benefits and costs of our energy program.

-- Coordinate our energy policies with those of other consuming nations to promote interdependence, as well as independence.

more

ACTIONS ANNOUNCED TODAY BY THE PRESIDENT

I. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET NEAR-TERM GOALS (1975-1977)

To meet the national goals, the President outlined a comprehensive program of legislative proposals to the Congress which he requested be enacted within 90 days and administrative actions that he will begin implementing immediately. The legislative package is more effective and equitable than the administrative program, but the President indicated that the seriousness of the situation demanded immediate action. These actions will reduce overall energy demand, increase domestic production, increase conversion to coal, and reduce oil imports. They include:

(A) Administrative Actions

1. Import Fee -- Because of the seriousness of the problem and because time is required for Congressional action on his legislative proposals, the President is acting immediately within existing authorities to increase the import fees on crude oil and petroleum products. These new import fees would be modified upon passage of the President's legislative package.

(a) Import fees on crude oil and petroleum products under the authority of the Trade Expansion Act of 1962, as amended, will be increased by $1 effective February 1, 1975, an additional $1 effective March 1, and another $1 effective April 1, for a total increase of $3.00 per barrel. Currently existing fees will also remain in effect.

(b) FEA's "Old Oil Entitlements" program will be utilized to spread price increases on crude among all refiners and to lessen disproportionate regional effects, particularly in the Northeast.

(c) As of February 1975, product imports will cease to be covered by FEA's "Old Oil Entitlements" program. In order to overcome any severe regional impacts that could be caused by large fees in import dependent areas, imported products will receive a rebate corresponding to the benefit which would have been obtained under that program. The rebate should be approximately $1.00 in February, $1.40 in March, and $1.80 per barrel in April.

(d) This import fee program would reduce imports by about 500,000 barrels per day. In April it would generate about $400 million per month in revenues.

more (OVER)

2. Backup Import Control Program -- The energy conservation measures and tax proposals will be supplemented by the use of Presidential power to limit oil imports as necessary to achieve the near-term goals.

3. Crude Oil Price Decontrol -- To stimulate production and further cut demand, steps will be taken to remove price controls on domestic crude oil by April 1, 1975, subject to congressional disapproval as provided by §4(g) of the Emergency Petroleum Allocation Act of 1973.

4. Increase Public Education on Energy Conservation -- Energy Resources Council will step up its efforts to provide information on energy conservation methods and benefits.

(B) -Legislative Proposals

1. Comprehensive Tax and Decontrol Program -- The President asked the Congress to pass within 90 days a comprehensive legislative package which could lead to reduction of oil imports of 900,000 barrels per day by 1975 and 1.6 million barrels by 1977. Average oil prices would rise about $4.00 per barrel of $.10 per gallon. The package which will raise $30 billion in revenues on an annual basis includes:

(a) Windfall Profits Tax -- A tax on all domestic crude oil to capture the windfall profits resulting from price decontrol. The tax would take 88% of the windfall profits on crude oil and would phase out over several years. The tax would be retroactive to January 1, 1975.

(b) Petroleum Excise Tax and Import Fee -- An excise tax on all domestic crude oil of $2 per barrel and a fee on imported crude oil and product imports of $2 per barrel. The new, administratively established import fee of $3 on crude oil would be reduced to $2.00 and $1.20 fee on products would be increased to $2.00 when the tax is enacted. The product import fee would keep the excise tax from encouraging foreign refining and the related loss of jobs to the U.S.

(c) New Natural Gas Deregulation -- Remove Federal interstate price regulation on new natural gas to increase domestic production and reduce demand for scarce natural gas supplies.

(d) Natural Gas Excise Tax -- An excise tax on natural gas of 37¢ per thousand cubic feet (mcf), which is equivalent on a Btu basis to the $2 per barrel petroleum excise tax and fee. This will discourage attempts to switch to natural gas and acts to reduce natural gas demand curtailments. Since the usual results of gas curtailments is a switch to oil, this will limit the growth of oil imports.

2. Elk Hills Naval Petroleum Reserve. The President is asking the Congress to permit production of the Elk Hills Naval Petroleum Reserve (NPR #1) under Navy control. Production could reach 160,000 barrels per day early in 1975 and 300,000 barrels per day by 1977. The oil produced would be used to top off Defense Department storage tanks, with the remainder sold at auction or exchanged for refined petroleum products used by the Department of Defense. Revenues would be used to finance further exploration, development and production of the Naval petroleum reserves and the strategic petroleum storage.

3. Conversion to the Use of Domestic Coal. The President is asking the Congress to amend the Clean Air Act and the Energy Supply and Environmental Coordination Act of 1974 to permit a vigorous program to make greater use of domestic coal to reduce the need for oil. This program would reduce the need for oil imports by 100,000 barrels per day in 1975 and 300,000 barrels in 1977. These amendments would extend FEA's authority to grant prohibition orders from 1975 to 1977, prohibit powerplants early in the planning process from burning oil and gas, extend FEA enforcement authority from 1978 to 1985, and make clear that coal burning

installations that had originally planned to convert from coal to oil be eligible for compliance date extensions. It would give EPA authority to extend compliance dates and eliminate restrictive regional environmental limitations. A plant could convert as long as its own emissions do not exceed ambient air quality standards.

II. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET MID-TERM GOALS (1975-1985)

These actions are designed to meet the goal of achieving the capability for energy independence by 1985. The actions include measures to increase domestic energy production (including measures to cope with constraints and strike a balance between environmental and energy objectives), reduce energy demand, and prepare for any future emergency resulting from an embargo.

(A) Supply Actions

1. Naval Petroleum Reserve No. 4 (Legislative proposal) -- The President is asking the Congress to authorize the exploration, development and production of NPR-4 in Alaska to provide petroleum for the domestic economy, with 15-20% earmarked for military needs and strategic storage. The reserves in NPR-4 which are now largely unexplored could provide at least 2 million barrels of oil per day by 1985. Under the legislative proposal:

(a) The President would be authorized to explore, develop and produce NPR-4.

(b) The Government's share of production (approximately 15-20%) would be used to help finance the strategic storage system and to help fulfill military petroleum requirements. Any other receipts go to the United States Treasury as miscellaneous receipts.

2. OCS Leasing (Administrative) -- The President reaffirmed his intention to continue an aggressive Outer Continental Shelf leasing policy, including lease sales in the Atlantic, Pacific, and Gulf of Alaska. Decisions on individual lease sales will await completion of appropriate environmental studies. Increased OCS leasing could add domestic production of 1.5 million barrels of oil and additional supplies of natural gas by 1985. There will be close cooperation with Coastal states in their planning for possible increased local development. Funding for environmental studies and assistance to States for planning has been increased in FY 1975.

3. Reducing Domestic Energy Price Uncertainty (Legislative proposal) -- Legislation will be requested authorizing and requiring the President to use tariffs, import quotas, import price floors, or other measures to achieve domestic energy price levels necessary to reach self-sufficiency goals. This legislation would enable the President to cope with possible large-scale fluctuations in world oil prices.

4. Clean Air Act Amendments (Legislative proposal) -- In addition to the amendments outlined earlier for short-term goals, the President is asking for other Clean Air Act amendments needed for a balance between environmental and energy goals. These include:

(a) Legislative clarification to resolve problems resulting from court decisions with respect to significant air quality deterioration in areas already meeting health and welfare standards.

(b) Extension of compliance dates through 1985 to implement a new policy regarding stack gas scrubbers -- to allow use of intermittent control systems in isolated power plants through 1985 and requiring other sources to achieve control as soon as possible.

(c) A pause for 5 years (1977-1981 model years) for nationwide auto emission standards at the current California levels for hydrocarbons (0.9 grams per mile) and carbon monoxide (9 grams per mile), and at 1975 standards (3.1 grams per mile) for oxides of nitrogen (with the exception of California which has adopted the 2.0 standard). These standards for hydrocarbons (HC) and carbon monoxide (CO) are more stringent than now required nationwide for 1976 model year's cars. The change from the levels now required for 1977-1981 model years in the law will have no significant impact on air quality standards, yet they will facilitate attainment of the goal of 40% increase in auto fuel efficiency by the 1980 model year.

(d) EPA will shortly begin comprehensive hearings on emission controls and fuel economy which will provide more detailed data for Congressional consideration.

5. Surface Mining (Legislative proposal) -- The President is asking the Congress to pass a surface mining bill which strikes a balance between our desires for reclamation and environmental protection and our need to increase domestic coal production substantially over the next ten years. The proposed legislation will correct the problems which led to the President's veto of a surface mining bill last year.

6. Coal Leasing (Administrative) -- To assure rapid production from existing leases and to make new, low sulfur coal supplies available, the President directed the Secretary of the Interior to:

(a) Adopt legal diligence requirements to assure timely production from existing leases.

(b) Meet with Western Governors to explore regional questions on economic, environmental and social impacts associated with new Federal coal leases.

(c) Design a program of new coal leasing consistent with timely development and adequate return on public assets, if proper environmental safeguards can be provided.

more

7. Electric Utilities -- The President is asking the Congress for legislation concerned with utilities. In recent months, 60% of planned nuclear capacity and 30% of non-nuclear capacity additions have been postponed or cancelled by electric utilities. Financing problems are worsening and State utility commission practices have not assured recovery of costs and adequate earnings. The transition from oil and gas-fired plants to coal and nuclear has been slowed greatly -- contributing to pressure for higher oil imports. Actions involve:

(a) Uniform Investment Tax Credit (Legislative) -- an increase in the investment tax credit to eliminate the gap between utilities and other industries -- currently a 4% rate applies to utilities and 7% to others.

(b) Higher Investment Tax Credit (Legislative) -- An increase in investment tax credit for all industry, including utilities, for 1 year -- to 12%. The 12% rate would be retained for two additional years for all power plants except oil and gas-fired facilities.

(c) Preferred Stock Dividend Deductions (Legislative) -- A change in tax laws applicable to all industries, including utilities, which allows deductions of preferred stock dividends for tax purposes to reduce the cost of capital and stimulate equity rather than debt financing.

(d) Mandated Reform of State Utility Commission Processes (Legislative) -- The legislation would selectively reform utility commission practices by: (1) setting a maximum limit of 5 months for rate or service proceedings; (2) requiring fuel adjustment pass-throughs, including taxes; (3) requiring that construction work in progress be included in a utility's rate base; (4) removing any rules prohibiting a utility from charging lower rates for electric power during off-peak hours and (5) allowing the cost of pollution control equipment to be included in the rate base.

(e) Energy Resources Council Study (Administrative) -- Review and report to the President on the entire regulatory process and financial situation relating to electric utilities and determine what further reforms or actions are needed. ERC will consult with State utility commissions, governors, public utilities and consumers.

more (OVER)

8. Nuclear Power -- To accelerate the growth of nuclear power which supplies only one percent of our energy needs, the President is proposing, in addition to actions outlined above:

(a) Expedited Licensing and Siting (Legislative) -- A Nuclear Facility Licensing Act to assure more rapid siting and licensing of nuclear plants.

(b) 1976 Budget Increase (Legislative) -- An increase of $41 million in appropriations for nuclear safety, safeguards, and waste management.

9. Energy Facilities Siting (Legislative) -- Legislation would reduce energy facility siting bottlenecks and assure sites for needed facilities with proper land use considerations:

(a) The legislation would require that states have a comprehensive and coordinated process for expeditious review and approval of energy facility applications; and state authorities which ensure that final State energy facility decisions cannot be nullified by actions of of local governments.

(b) Provision for owners of eligible facilities or citizens to sue States for inaction.

(c) Provide no Federal role in making case by case siting decisions for the States.

(B) Energy Conservation Actions

The President announced a number of energy conservation measures to reduce demand, including:

1. Auto Gasoline Mileage Increases (Administrative) -- The Secretary of Transportation has obtained written agreements with each of the major domestic automobile manufacturers which will yield a 40 percent improvement in fuel efficiency on a weighted

average for all new autos by 1980 model year. These agreements are contingent upon relaxation of Clean Air Act auto emission standards. The agreement provides for interim goals, Federal monitoring and public reporting of progress.

2. Building Thermal Standards (Legislative) -- The President is asking Congress for legislation to establish national mandatory thermal (heating and cooling) efficiency standards for new homes and commercial buildings which would save the equivalent of over one-half million barrels of oil per day by 1985. Under this legislation:

(a) The Secretary of Housing and Urban Development shall consult with engineering, architectural, consumer, labor, industry, and government representatives to advise on development of efficiency standards.

(b) Thermal standards for one and two-family dwellings will be developed and implementation would begin within one year. New minimum performance standards for energy in commercial and residential buildings would be developed and implemented as soon thereafter as practicable.

(c) Standards would be implemented by State and local governments through local building codes.

(d) The President also directed the Secretary of Housing and Urban Development to include energy conservation standards in new mobile home construction and safety standards.

3. Residential Conservation Tax Credit -- The President is asking Congress for legislation to provide incentives to homeowners for making thermal efficiency improvements in existing homes. This measure, along with a stepped-up public information program, could save the equivalent of over 500,000 barrels per day by 1985. Under this legislation:

(a) A 15 percent tax credit retroactive to January 1, 1975 for the cost of certain improvements in thermal efficiency in residences would be provided. Tax credits would apply to the first $1,000 of expenditures and can be claimed during the next three years.

(b) Improvements such as storm windows, and insulation, would qualify for the tax credit.

4. Low-Income Energy Conservation Program (Legislative) -- The President is proposing legislation to establish a Low-Income Energy Conservation Program to offer direct subsidies to low-income and elderly homeowners for certain energy conservation improvements such as insulation. The program is modeled upon a successful pilot program in Maine.

   (a) The program would be administered by FEA, under new legislation, and the President is requesting supplemental appropriations in 1975 and $55 million in fiscal year 1976.

   (b) Acting through the States, Federal funds would be provided to purchase materials. Volunteers or community groups could install the materials.

5. Appliance Efficiency Standards (Administrative) -- The President directed the Energy Resources Council to develop energy efficiency goals for major appliances and to obtain agreements within six months from the major manufacturers of these appliances to comply with the goals. The goal is a 20% average improvement by 1980 for all major appliances, including air conditioners, refrigerators and other home appliances. Achievement of these goals would save the equivalent of over one-half million barrels of oil per day by 1985. If agreement cannot be reached, the President will submit legislation to establish mandatory appliance efficiency standards.

6. Appliance and Auto Efficiency Labelling Act (Legislative) -- The President will ask the Congress to enact a mandatory labelling bill to require that energy efficiency labels be placed on new appliances and autos.

(C) Emergency Preparedness

The President announced that comprehensive energy emergency legislation will be proposed, encompassing two major components.

1. Strategic Petroleum Storage (Legislative) -- Development of an energy storage system of one billion barrels for domestic use and 300 million barrels for military use. The legislation will

more

authorize the government to purchase and prepare the storage facilities (salt domes or steel tanks), while complex institutional questions are resolved and before oil for storage is actually purchased. FEA will develop the overall program in cooperation with the Department of the Interior and the Department of Defense. All engineering, planning, and environmental studies would be completed within one year. The 1.3 billion barrels will not be complete for some years, since time is required to purchase, prepare, and fill the facilities.

2. Standby and Planning Authorities (Legislative) -- The President is requesting a set of emergency standby authorities to be used to deal with any significant future energy shortages. These authorities would also enable the United States to fully implement the agreement on an International Energy Program between the United States and other nations signed on November 18, 1974. This legislation would include the authority to:

   (a) Implement energy conservation plans to reduce demand for energy;

   (b) allocate petroleum products and establish price controls for allocated products;

   (c) ration fuels among end users;

   (d) allocate materials needed for energy production where such materials may be in short supply;

   (e) increase production of domestic oil; and

   (f) regulate petroleum inventories.

III. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET LONG-TERM GOALS (BEYOND 1985)

The expanded research and development program on which the nation is embarked will provide the basis for increasing domestic energy supplies and maintaining energy independence. It will also make it possible in the long run for the U.S. to export energy supplies and technology to others in the free world. Important elements are:

more

(OVER)

(A) Synthetic Fuels Program (Administrative) -- The President announced a National Synthetic Fuels Commercialization Program to ensure at least one million barrels per day equivalent of synthetic fuels capacity by 1985, using technologies now nearing commercial application.

1. Synthetic fuel types to be considered will include synthetic crude from oil shale and a wide range of clean solid, liquid, and gaseous fuels derived from coal.

2. The Program would entail Federal incentives (possibly including price guarantees, purchase agreements, capital subsidies, leasing programs, etc.), granted competitively, and would be aimed at the production of selected types of gaseous and liquid fuels from both coal and oil shale.

3. The program will rely on existing legislative authorities, including those contained in the Federal Non-Nuclear Energy Research and Development Act of 1974, but new legislative authorities will be requested if necessary.

(B) Energy Research and Development Program -- In the current fiscal year, the Federal Government has greatly increased its funding for energy research and development programs. These Federal programs are a part of a much larger national energy R & D effort and are carried out in cooperation with industry, colleges and universities and others. The President stated that his 1976 Budget will continue to emphasize these accelerated programs which include research and the development of technology for energy conservation and on all forms of energy including fossil fuels, nuclear fission and fusion, solar and geothermal.

(C) Energy Research and Development Administration -- (ERDA) The President has signed an Executive Order which activates, effective January 19, 1975, the Energy Research and Development Administration. ERDA will bring together in a single agency the major Federal energy R & D programs which will have the responsibility for leading the national effort to develop technology to assure that the U.S. will have an ample and secure supply of energy at reasonable prices. ERDA consolidates major R & D functions previously handled by the AEC, Department of the Interior, National Science Foundation and Environmental Protection Agency. ERDA will also continue the basic research, nuclear materials production and weapons programs of the AEC.

more

IMPACTS OF NEAR AND MID-TERM
ACTIONS ON PETROLEUM CONSUMPTION AND IMPORTS

NEAR TERM PROGRAM
(MMB/D)

	1975	1977
CONSUMPTION IF NO NEW ACTIONS	18.0	18.3
IMPORTS IF NO NEW ACTIONS	6.5	8.0
	IMPORT SAVINGS	
Less Service Savings by Short-term Actions:	1975	1977
Production from Elk Hills	0.2	0.3
Coal Conversion	0.1	0.3
Tax Package	0.9	1.6
TOTAL IMPORT SAVINGS	1.2	2.2
REMAINING IMPORTS	5.3	5.8

MID-TERM PROGRAM

CONSUMPTION IF NO NEW ACTIONS	23.9 MMB/D	
IMPORTS IF NO NEW ACTIONS	12.7 MMB/D	
Less Savings Achieved by Following Actions:	1985 IMPACT ON IMPORTS	
OCS Leasing	1.5	
NPR-4 Development	2.0	
Coal Conversion	0.4	
Synthetic Fuel Commercialization	0.3	
Auto Efficiency Standards	1.0	
Continuation of Taxes	2.1	
Appliance Efficiency Goals	0.1	
Insulation Tax Credit	0.3	
Thermal Standards	0.3	
Total Import Savings by Actions		8.0
Remaining Imports		4.7
Less:		
Emergency Storage	3.0	
Standby Authorities	1.7	
NET IMPORT VULNERABILITY		0

more

(OVER)

INTERNATIONAL ENERGY POLICY AND FINANCING ARRANGEMENTS

BACKGROUND

The cartel created by the Organization of Petroleum Exporting Countries (OPEC) has successfully increased their governments' price for exports of oil from approximately $2 per barrel in mid-1973 to $10 per barrel today. Even after paying for their own increased imports, OPEC nations will report a surplus of over $60 billion in 1974, which must be invested. Oil price increases have created serious problems for the world economy. Inflation pressures have been intensified. Domestic economies have been disrupted. Consuming nations have been reluctant to borrow to finance their oil purchases because of current balance of payments risks and the burden of future interest costs and the repayment of massive debts. International economic relations have been distorted by the large flows of capital and uncertainties about the future.

U.S. POSITION

The United States believes that the increased price of oil is the major international economic problem and has proposed a comprehensive program for reducing the current exorbitant price. Oil importing nations must cooperate to reduce consumption and accelerate the development of new sources of energy in order to create the economic conditions for a lower oil price. However, until the price of oil does decline, international stability must be protected by financing facilities to assure oil importing nations that financing will be available on reasonable terms to pay for their oil imports. The United States is active in developing these financing programs. Once a cooperative program for energy conservation and resource development and the interim financing arrangements are agreed upon, it will be possible to have constructive meetings with the oil producers.

ACTIONS TAKEN BY OIL CONSUMING NATIONS

The oil consuming nations have already created the International Energy Agency to coordinate conservation and resource development programs and policies for reacting to any future interruption of oil exports by producing nations. The four major elements of this cooperative program are:

more

An emergency sharing arrangement to immediately reduce member vulnerability to actual or threatened embargoes by producers,

A long-term cooperative program to reduce member nation dependence on imported oil,

A comprehensive information system designed to improve our knowledge about the world oil market and to provide a basis for consultations among members and individual companies; and

A framework for coordinating relations with producing nations and other less developed consuming countries.

The International Energy Agency has been established as an autonomous organization under the OECD. It is open to all OECD nations willing and able to meet the obligations created by the program. This international agreement establishes a number of conservation and energy resources development goals but each member is left free to determine what domestic measures to use in achieving the targets. This flexibility enables the United States to coordinate our national and international energy goals.

OTHER U.S. ACTIONS AND PROPOSALS

The United States has also supported programs for protecting international stability against distorting financial flows created by the sudden increase of oil prices. Although the massive surplus of export earnings accumulated by the producing nations will have to be invested in the oil consuming nations, it is unlikely that these investments will be distributed so as to match exactly the financing needs of individual importing nations. Fortunately the existing complex of private and official financial institutions has, in the case of the industrialized countries, been effective in redistributing the massive oil export earnings to date. However, there is concern that some individual industrialized nations may not be able to continue to obtain needed funds at reasonable interest rates and terms during the transition period until supplies are increased, conservation efforts reduce oil imports and the price of oil declines. Therefore, the United States has supported various proposals for "reshuffling" the recycled funds among oil consuming nations, including:

more

(OVER)

Modification of International Monetary Fund (IMF) rules to permit more extensive use of existing IMF resources without further delay;

Creation of a financial solidarity facility as a "safety net" for participating OECD countries that are prepared to cooperate in an effort to increase conservation and energy resource development actions to create pressure to reduce the present price of oil;

Establishment of a special trust fund managed by the IMF which would extend balance of payments assistance to the most seriously affected developing nations on a concessional basis not now possible under IMF rules. The United States hopes that oil exporting nations might contribute a major share of the trust fund and that additional resources might be provided through the sale of a small portion of the IMF's gold holdings in which the differential between the original cost of the gold and the current market price would be added to the trust fund; and

An increase in IMF quotas which would make more resources available in 1976.

These proposals will be discussed at ministerial level meetings of the Group of Ten, the IMF Interim Committee and the International Monetary Fund/International Bank for Reconstruction and Development Committee in Washington, D.C. January 14 to 17.

In these meetings, the United States will continue to press its views concerning the fundamental importance of international cooperation to achieve necessary conservation and energy resources development goals as a basis for protecting our national security and underlying economic strength.

# # #

GPO 882-978

EMBARGO FOR RELEASE UNTIL
1:00 pm, January 15, 1975

OUTLINE OF ENERGY
QUESTIONS AND ANSWERS

BACKGROUND

- Data History and Forecasts

NEAR-TERM ACTIONS

- Import Fee, Tax and Decontrol
- Naval Petroleum Reserve

MID-TERM PROGRAM

- Outer Continental Shelf Production
- Domestic Price Uncertainty
- Clean Air Act Amendments
- Strip Mining Legislation
- Coal Leasing and Prices
- Electric Utilities
- Energy Facility Siting
- Energy Conservation

EMERGENCY PLANNING MEASURES

- Emergency Storage
- Standby Authority

LONG-TERM ACTIONS

- Research and Development

ECONOMIC IMPACT

INTERNATIONAL

GENERAL

BACKGROUND

DATA HISTORY AND FORECASTS

Q. Has demand for petroleum products increased since the embargo?

A. Domestic consumption of energy is now beginning to increase again and is estimated to keep growing, although at a slower rate than prior to the embargo. The latest figures show total domestic demand to be at 18.2 million barrels per day (MMB/D) as compared to 17.7 MMB/D at the close of 1973. Gasoline consumption dropped 3.4 percent during the first 9 months of 1974 (as compared to 1973), but has increased since September bu about 300,000 barrels per day.

Q. What about production and import levels?

A. Domestic oil procuction continues to decline as older fields have reached their peak. During the first eleven months of 1974, domestic production averaged 8.8 MMB/D as compared to 9.2 MMB/D in 1973. As a result, imports continue to rise even with present high prices. We are now importing 7.3 MMB/D (average of 6.8 MMB/D in last quarter of 1974), as compared to 6.5 MMB/D in October, 1973, the month prior to the embargo.

Q. What about coal production?

A. Coal (approximately 20 percent of domestic energy production) was the only major energy source that showed increased output during the first three quarters of 1974. Coal production in October was 5 percent above its level for the same period in 1973. However, the strike in November interrupted coal output and the industry has not yet regained former production levels.

Q. Do you foresee any shortages in the next 6 months?

A. We do not expect shortages of petroleum products but we do project large shortages for natural gas, as high as 14%. The greatest impact will be felt by electric utilities and industries that receive natural gas on an interruptible contract basis. These curtailments of natural gas have already had a serious impact on employment.

Q. How high are current inventories?

A. FEA figures indicate that December, 1974 crude oil stocks were about 20 million barrels higher (this is an adjusted figure to account for disparities between the American Petroleum Institute and FEA reporting methods) than the same period of 1973. Similarly, stocks for refined petroleum products were higher in December 1974 than the corresponding month in 1973 due to reduced demand and increased imports. Coal stocks, however, are down as a result of the recent UMW strike.

NEAR-TERM ACTIONS

IMPORT FEE, TAX AND DECONTROL

Q. Will the fee on imports create additional profits for the oil companies?

A. No, the import fee, by itself, will not increase industry profits. However, the fee will place an upward pressure on the price for crude. Since the price for uncontrolled domestic crude will rise to meet the world price, industry profits will also rise. This is why we are calling for a windfall profits tax as part of the energy proposals. It will be retroactive to collect any profits caused by Administrative actions.

Q. Won't certain areas of the country which are heavily dependent on crude oil or product imports suffer a disproportionate burden as a result of the tariff?

A. No. The FEA is currently administering a program which substantially equalizes the cost of crude oil to all domestic refiners. This crude equalization program aids refiners with high crude costs at the expense of other refiners which have access to price-controlled domestic crude. Further, the product fees will be less than crude fees; there will be a $3 fee on crude and a $1.20 fee on refined products in April.

Q. How does a tax or fee achieve our national energy goals?

A. As a result of these measures, petroleum products will become more expensive relative to other goods and services, thereby encouraging conservation and discouraging consumption. Also, making imports more expensive than domestic supplies of petroleum encourages the production of domestic crude oil.

Q. Will the fee help to lower world crude prices and protect us from another embargo?

A. The fee program will help to reduce our imports of foreign oil by reducing our overall demand. As a result, we will have less demand for products from some OPEC nations. To this extent, it may affect some prices being charged by certain OPEC nations. But overall, the fee will have a minimal effect on lowering world crude prices in the immediate future.

Q. Why didn't you tighten the mandatory allocation program which you already have authority to administer rather than raising prices? Why not rationing?

A. The mandatory allocation program was designed in response to an emergency situation, and does not address the more basic economic issues. A tighter mandatory allocation program could necessitate a significant increase in the Federal bureaucracy and could mean a return to the long gasoline lines we experienced last winter. Additionally, rationing and price control programs are inevitably discriminatory against those who would enter the market and provide competition.

While the Administration's program, which relies on the market forces, is more effective, the President announced his intention to guarantee reaching the goals by using his authority to limit imports if necessary.

Q. How much more expensive will gasoline and other products be?

A. On the average, if costs of a crude import $3 fee are spread evenly among all products, prices of gasoline and other petroleum products refined from the higher priced imported crude could rise as much as 5 cents per gallon (controlled domestic oil will stay at the same price).

The total tax package and decontrol would ultimately add about $4 a barrel (10 cents per gallon) to the average costs of all products.

Q. What are the limits to the President's power to institute a fee?

A. The President may impose a fee in response to a national security finding and should be established at that amount sufficient to offset the threat to national security.

Q. What additional actions are you asking from Congress?

A. In conjunction with the establishment of the fee, we are asking Congress for an excise tax on domestic crude oil (and will maintain a fee on all imports), the decontrol of old crude oil, deregulation of new natural gas, windfall profits tax, and a natural gas excise tax.

Q. What are the differences between a tax, a fee and a tariff?

A. All three are charges which can be used to produce revenue and all three have the effect of reducing demand. The differences lie in the source of authority to levy the charge. A tax must be levied by Congress for the purpose of raising domestic revenue. A tariff is a charge against imports and must also be authorized by the Congress. A fee is also levied on imported material but may be set for non-revenue purposes and need not be legislated.

Q. How much oil will the combined tax/fee program save?

A. The overall tax-package will save an estimated 1.6 MMB/D in 1977 and about 1.0 MMB/D in 1975.

Q. Will there be rationing?

A. No, not unless another emergency embargo situation necessitates it.

Q. Why not?

A. Rationing will not solve our long-term problems and will create severe energy disruptions in life-styles and would require a large bureaucracy to administer.

Q. Wouldn't it be better to reduce demand by imposing import quotas instead of raising prices through a fee?

A. No, it would not. Import quotas can cause disparities in the marketplace by mandating specific, allowable levels of products into the country. By raising prices via a fee, the individual consumer can determine in what areas to conserve. While we are not considering the use of import quotas at this time, we will submit legislation requesting the authority to use tariffs, import quotas or other measures to achieve energy price levels necessary to reach our goals. The Message stated that Presidential power to limit oil imports would be used if necessary.

Q. What is the effect of decontrolling domestic old oil?

A. Prices on the domestic market will rise to meet world oil prices, and oil industry profits will also rise. This is why we must have immediate enactment of a windfall profits tax - to preclude this from happening.

Q. Why are you requesting the deregulation of natural gas prices?

A. I want to let the free market work to the maximum extent possible. The deregulation of natural gas prices will greatly encourage higher production levels in the long run. As you know, we are currently faced with a natural gas shortage of 14 percent for this winter. In the short run, higher prices will serve to lessen demand and will therefore mitigate the severity of this projected shortage.

Q. Isn't the ultimate effect of this action going to be increased prices to the consumer?

A. Yes, this will be the effect. We estimate that the typical monthly natural gas bill to the consumer would increase by about $8 by 1985. The alternative to deregulation is less natural gas and higher costs for other fuels, such as petroleum and electricity.

Q. How much will natural gas prices rise in the next few years?

A. We estimate that, as a result of deregulation, the average natural gas prices will rise from 31¢/mcf in the interstate market in 1974, to 35¢/mcf in 1975; 38¢/mcf in 1976; and 41¢/mcf in 1977. The average national natural gas price will be higher, because intrastate gas is not controlled.

The estimated market clearing price for natural gas is 99¢/mcf, and would be reached by 1985.

Q. Why are you placing an excise tax on domestic natural gas?

A. The excise tax on natural gas will approximate the excise tax and import fees on oil on a Btu equivalency basis. It will also inhibit preference for natural gas over oil. This tax will reduce the curtailment problem and lessen negative employment effects.

Q. How much will the production of old oil be stimulated by price decontrol?

A. We estimate that price decontrol could result in an additional 1-2 MMB/D of crude oil production in the next 3-4 years.

Q. What are the advantages of an import fee over a gasoline tax?

A. An import fee covers all crude and product imports and spreads the effects of demand reduction more evenly than a gas tax. The gasoline tax would have to be very large to save an equivalent amount of oil -- at least 30¢ per gallon -- and it would severely affect the already depressed automobile industry and numerous related industries.

Q. Why doesn't the Administration provide priority treatment in domestic production of crude oil relative to the levying of tariffs and excise taxes? For example, the fee on imported crude could be $2.00 per barrel, whereas, the domestic excise tax would be at $1.50. Won't such action encourage domestic exploration as a result of an additional financial incentive?

A. The immediate import fees will raise the prices of imports relative to domestic production. In the long-run, and at the margin, decontrolled domestic crude would rise to the same selling price as foreign crude, and any differential in taxes would probably only result in additional profits. Further, decontrol of old oil and higher prices should provide sufficient incentives to produce.

NAVAL PETROLEUM RESERVES

Q. What is your specific proposal with regard to the Naval Petroleum Reserves?

A. There are two proposals involved. We have asked Congress to permit production of the Elk Hills, California, Naval Petroleum Reserve (NPR-1) under Navy control and are submitting legislation to the Congress to authorize the exploration, development and production of NPR-4 in Alaska. The oil produced from NPR-1 would be used to top off all Defense Department storage tanks with the remainder to be sold at auction or exchanged for refined petroleum products used by the Department of Defense. The production from NPR-4 would provide petroleum for the domestic economy as well as for defense needs.

Q. Who will have Government authority for developing NPR #1?

A. I have asked the Congress to permit production of the Elk Hills Naval Petroleum Reserve under Navy control.

Q. How quickly can NPR-1 and NPR-4 be brought onstream?

A. NPR-1 can produce 160,000 barrels per day within a few months and 300,000 barrels per day by 1977. NPR-4 will take longer to produce as exploration and development must first take place.

Q. Can we use the Trans-Alaska Pipeline to move NPR-4 oil?

A. No. North Slope oil production will fill the capacity of the Trans-Alaska Pipeline and thus new transportation facilities will be needed for NPR-4.

Q. What is the time frame and cost involved in retrieving oil and gas from NPR-4 in Alaska?

A. The development of NPR-4 will require several years and production is not expected before 1982 at the earliest. The cost would be more than $400 million if exploration is done by the Government. If any part of NPR-4 is leased commercially, revenues could more than offset costs. It is estimated that about two million barrels per day can be produced in NPR-4.

MID-TERM PROGRAM

OUTER CONTINENTAL SHELF PRODUCTION

Q. How do you know there are sufficient quantities of oil and gas in the Outer Continental Shelf to make its development worthwhile?

A. We don't know for sure that there are sufficient quantities for development although geological formations indicate that there may be. We are reaffirming our intention to continue an aggressive exploration and development policy.

Q. What will be done to insure that the environmental impacts of oil and gas development in the OCS and other frontier areas will be kept to safe levels?

A. We already have an extensive body of law designed to protect these areas from unacceptable levels of environmental damage and a whole new level of technology (environmental monitoring protection) has been developed in response to these new laws. In the field of oil and gas development technical procedures and equipment are now in use designed to prevent oil spills and to minimize and control them once they occur. In addition the development of environmental baselines and the requirement to monitor the sites under development insures that any adverse effects will be detected early to allow proper and effective counteraction.

The Council on Environmental Quality conducted an extensive study of oil and gas exploration in the offshore areas of the U.S. and concluded that with proper safeguards, these areas can be safely developed. The Department of the Interior has now adopted literally all of the recommendations of the CEQ report.

In addition, new funds are being requested for coastal zone management to investigate and develop further the additional safeguards needed to protect our environment. Of course, before any leasing of frontier areas is done, there will be extensive public hearings and environmental impact statements to advise the public of the safeguards being taken.

DOMESTIC PRICE UNCERTAINTY

Q. How would you determine when our vulnerability to pressure from oil exporting countries is high enough to make a price floor or other measure desirable?

A. Our vulnerability becomes unacceptable when our expected level of imports could not be completely replaced by emergency storage and standby actions. If the price of imported oil declines considerably, demand for oil would increase and import levels would get much higher.

Q. What is the difference between a quota and a price floor on imports?

A. A quota is designed to restrict the actual amount of imports into the country while a price floor sets a minimum price for imports so that domestic fuels will remain economically competitive with foreign sources.

Q. Wouldn't price floors maintain oil prices you have claimed are exorbitant?

A. We would have no intention of setting a floor price at current world oil price levels ($11-12 per barrel). Rather, price floors could conceivably be set at a significantly lower level and still keep traditional domestic sources economic.

CLEAN AIR ACT AMENDMENTS

Q. Will the Clean Fuels Deficit be eliminated by your proposed energy actions?

A. Yes. The Clean Fuels Deficit is a term used to describe the potential shortage of low sulfur coal needed to meet emission limitations in 1975 and beyond. This shortage of low sulfur coal was at one point estimated to be as high as 200 million tons by mid-1975. The alternatives to these actions would be to curtail coal burning, thereby curtailing electric energy generation, or to import low sulfur oil to fill the low sulfur coal gaps, thereby increasing our oil imports. The actions I propose include voluntary revision of State emission limitations, implementation of supplementary control systems and extensions of compliance deadlines to eliminate this problem.

Q. By relaxing auto emission requirements, aren't you letting the auto industry off the hook and at the same time lowering the quality of our air?

A. No. We are actually moving to a tougher standard than now in force. I would like to emphasize that compliance with the legislative standards will still be required and cleaner air will thus be achieved. The interim standards set carbon monoxide and hydrocarbon emissions at the current California levels (9.0 grams and .9 grams per mile respectively) and NO_x emissions at 3.1 grams per mile for all States except California, where 2.0 grams per mile will still be required. Thus, the quality of our air will not be significantly impaired nor will we be retreating to the uncontrolled emission levels allowed before the passage of the Clean Air Act.

The proposal to extend the time required to comply with the original 1977 auto emission standards is based on the need to balance fuel conservation with the Clean Air Act requirements; simply proceeding with the present schedule for emission controls would have involved the additional consumption of 1 1/2 to 5 1/2 billion gallons of gasoline per year by 1980. By extending the time required to comply with the final emission limitations we achieve fuel conservation in the form of a 40 percent fuel efficiency improvement.

Q. What are your plans for stack gas scrubbers?

A. Certainly some types of scrubbers have not reached the level of effectiveness that other designs have reached. However, scrubbers will play an important role in our future expanded use of coal. By 1985, we expect that all plants which need scrubbers will have them.

Q. Won't the Clean Air Act (CAA) and the Energy Supply and Environmental Coordination Act (ESECA) Amendments which you are proposing mean a retreat from our present efforts to clean the nation's air?

A. No, it will not. There will be a delay in achieving certain standards but the commitment remains firm.

The purpose of these proposed amendments is to facilitate the use of coal thereby reducing our dependence on imported oil and to resolve the clean fuels shortage created by the unavailability of low sulfur coal and stack gas scrubbers. In no way are they intended to trade off our environmental needs for some quick energy solutions.

Q. How will your plan to convert electric utilities from oil to coal affect air quality?

A. There may be an absolute increase in air pollution as a result of converting from oil to coal but the burning of coal itself will not adversely affect air quality since all coal conversion candidates will have to develop plans for complying with primary air quality standards. These plans must be approved by the Environmental Protection Agency before conversion orders may be placed in effect. In certain instances, an oil burning facility required to convert to coal may have difficulty obtaining the necessary low sulfur coal or pollution control equipment. Such facilities will not be converted unless they can comply with ambient air quality standards which protect health.

Q. It has been reported that the delays you propose in auto emission requirements represent a deal with Detroit to gain your 40% fuel efficiency goal -- is this true?

A. No, there is no deal involved. But this action is a recognition of the technical limitations that now exist in trying to meet both the auto emission requirements as they presently exist and the 40% increased fuel efficiency goal. By allowing for the delay we are providing for a more gradual and less disruptive development of emission control equipment while at the same time achieving a 40% increase in fuel efficiency.

STRIP MINING LEGISLATION

Q. How will your proposed strip mining bill differ from the proposed bill which Congress developed and you vetoed?

A. On December 30, 1974, I gave my objections to the strip mining bill proposed by Congress. The Congressional bill would have resulted in a reduction in coal production, and also contained too many vague and unclear requirements that could have led to an extensive litigation between the Federal Government and various private interest groups. The bill I will propose will be similar in many respects to the bill developed by Congress but amended to minimize these objections.

COAL LEASING AND PRICES

Q. Why do we need increased coal leasing in the United States?

A. In order for the nation to meet the goals I have announced, we must act quickly to remove constraints and provide new incentives for domestic production. We must focus our production capability on coal as it is our most abundant domestic resource. The Federal Government owns over 200 billion tons of coal reserves, but only 6 billion tons are currently scheduled to support production by 1980. Thus, we should move ahead to design a new program of coal leasing and should speed up production from these leases, providing the environmental impact of these actions is acceptable.

Q. What was the effect of the United Mine Workers strike on coal prices?

A. Coal prices rose substantially on the spot market in anticipation of and during the UMW strike. The cost of the new UMW contract will add approximately $2-3 to the price of a ton of coal in 3 years. Other factors continue to exert upward pressure on coal prices, the most notable of which is the return to the use of less expensive coal in place of higher priced oil by electric utilities.

Q. Even though the reserves are there, can the coal industry produce as much coal as we need in the short term?

A. If we eliminate the uncertainties surrounding coal production, we can substantially close the gap between coal supply and demand. The program I have outlined addresses all these uncertainties (stripmining legislation, coal leasing, Clean Air Act implementation, oil import policy, natural gas pricing policy and electricity demand) and should serve to assure an increased production of coal. We may not, however, be able to assure that coal production meets our demands in the very near future due to the current high oil prices and the shortage of natural gas which heightens coal use. Increased coal production is also constrained by manpower and equipment shortages in the short term.

ELECTRIC UTILITIES

Q. What legislative changes are you proposing for electric utility rate structures?

A. The legislation we are proposing will require state regulatory authorities to permit the utilities under their jurisdiction to generate sufficient revenues to cover costs during a period of rapid inflation and heavy capital expansion requirements.

Three of the provisions, including the cost of construction work in progress in the rate base mandating fuel adjustment pass-throughs, and setting a 5 month maximum processing time for regulatory hearings, would require all authorities to adopt procedures that are now being used in many jurisdictions.

The off-peak pricing proposal would prevent authorities from limiting electric utilities in their efforts to increase revenues by selling more power during slack demand periods.

Q. You said you would take further actions to aid electric utilities if necessary. What actions do you anticipate?

A. At this time, more than 60 percent of all planned nuclear plants have been delayed or cancelled. The Energy Resources Council will be working with the utilities and, if warranted, we will propose additional measures to get these plants going again.

Q. Many of these proposals will lead to increases in utility rates. How large will these increases be?

A. The inclusion of Construction Work in Progress in the rate base would add about 11 percent a year to prices and the limitation on rate decision delay would add about 5 percent next year, and probably less thereafter. The other proposals would add 1 to 2 percent to rates. In all, for the first full year in which the charges would take effect, the additional increase would be almost 20 percent.

Q. Why are you proposing rate increases in a time of double-digit inflation?

A. The increases in cost of electricity must be paid either directly by consumers, or indirectly through Government subsidy. Direct increases will cut back demand and reduce the overall increase required. A Government subsidy, on the other hand, means that everybody pays, whether they use more or less. Therefore, price increases for electricity will assure that those who use more, pay more.

Q. I'm using less electricity but paying more. Why?

A. Under last year's unusual circumstances (unprecedented oil price increases) the average per unit cost of electricity to industry rose 55 percent and 20 percent to residential consumers. This increase was so large that it offset most efforts to cut consumption. Rates should not increase as fast this year.

Q. Isn't the electric utility industry already making record profits?

A. Profits did increase through 1973. However, in 1974, they began to decline. For the first three quarters of 1974, aggregate profits for the utility industry declined by about 7 percent from those of the equivalent period of 1973. The critical issue, however, is that investor-owned electric utilities are now earning less than three times their total interest charges. A number of utilities are only barely meeting statutory requirements for interest coverage.

Q. How do you intend to monitor what electric utilities pay for fuel to make sure they are trying to be as cost-conscious as possible?

A. Our proposal calls for the appropriate local regulatory authority to allow a justified fuel pass-through. It will continue to be the function of that authority to oversee these regulations.

Q. If investor-owned utilities are unable to remain solvent without Federal intervention, why aren't you proposing public ownership at the State/municipal level or nationalization?

A. Public ownership as a solution implies that such ownership can solve the problem more cheaply. However, there is no consensus that publicly owned power is cheaper than privately owned power in the United States, except to the extent that it receives subsidization through cheaper capital and lower taxes. Such subsidy would tend to stimulate consumption relative to private ownership, and would be more expensive in the long run.

Q. Aren't you suggesting an infringement of states' rights? Isn't this unconstitutional?

A. While regulation of utility rates has traditionally been under State jurisdiction, the interest of the country as a whole is at stake. Specifically, the Interstate Commerce Clause gives the Federal Government the authority to regulate activities that affect interstate commerce - and it has been determined that consumption of electricity does affect interstate commerce. Most of these proposals are not new and already exist in many states. What we propose will establish uniformity across the nation resulting in more equitable treatment of all public utilities.

ENERGY FACILITY SITING

Q. What will the role of the States be in energy facility siting?

A. Under the proposed facilities siting legislation, States will be required to develop and submit comprehensive management plans to the FEA for the siting and construction of needed energy facilities within their boundaries. Each management plan will have to be approved by the FEA before State implementation may begin.

Q. What if FEA does not approve a plan?

A. If a State fails to formulate an acceptable plan, the FEA Administrator may promulgate an energy facility management program for the State to administer.

Q. Can a State veto an FEA promulgated plan?

A. No.

Q. Will the bill authorize FEA to overturn a State decision on a particular site application?

A. No. If a State fails to comply with the plans requirements in a particular case, the applicant may seek relief in the courts.

ENERGY CONSERVATION

Q. Are the specific conservation measures you've proposed tough enough to provide the petroleum demand reduction necessary to achieve the import goal in 1977?

A. Yes, they are. We are setting a goal to reduce imports by 2 MMB/D by the end of 1977. The savings from increased taxes and import fees amounts to 1.6 MMB/D while coal conversion will bring an 0.3 MMB/D oil saving. The development of Elk Hills Naval Petroleum Reserve will allow us to cut another 0.3 MMB/D from our import needs and additional conservation programs (public information, auto efficiency standards, thermal standards, voluntary appliance standards) will save even more.

Q. Why do we need long term conservation measures if, according to the Project Independence Report, accelerated development of our supplies alone will lead us to energy independence in 1985 if oil prices stay at $11 per barrel?

A. We need long term conservation goals specifically because we do not expect that the future price of world oil will be $11 and we do not want prices that high. Since the world price may drop considerably below $11 per barrel, we must make sure that the resulting increased demand will not increase our imports. We also need to stop using energy wastefully and to preserve our limited oil resources as much as possible.

Q. Will the conservation program you proposed result in attainment of the goal of one million barrels per day savings in imports for 1975 that you established in your energy message to Congress in October, 1974?

A. Yes. If it is all carried out -- higher prices resulting from the tariff and excise taxes, combined with the comparatively smaller immediate effects of specific conservation measures, such as the expanded conservation education program, the development of the Elk Hills Naval Petroleum Reserve, and coal conversion should provide us with at least one million barrels per day savings in projected imports by the fourth quarter of 1975.

However, attainment of this very near term goal is not enough. Our attention must turn to the far tougher goals of reducing our vulnerability to foreign supply curtailments through 1977, and eliminating it by 1985.

Q. If energy efficiency improvements in the home effectively reduce fuel costs, why is a tax credit needed for thermal improvements?

A. More and more Americans are highly mobile and do not remain in the same house for long periods of time. Because of this factor, and because it may take a few years to make thermal insulation pay off economically, a tax credit will encourage homeowners to insulate now regardless of how long they reside in the same house.

Secondly, because the economics of insulation do not pay off quickly, homeowners will have to pay higher first costs. In this period of recession many will find it difficult to pay higher first costs and a tax credit will help.

Q. Has the 55 m.p.h. speed limit been effective?

A. Yes. Lower speed limits are directly attributable to lower death rates on our highways and is a factor in reduced gasoline consumption. As you know, the President just signed into law a bill making the 55 m.p.h. speed limit a national mandatory limit for interstate highways and urges all State Governors to vigorously enforce this limit.

Q. What steps are you taking to assure that conservation goals are met by industry?

A. Members of the Administration have been meeting with industrial leaders on a regular basis to work out programs of industrial conservation. We are receiving commitments from these industries to conserve more energy and I am confident that industry is prepared to conserve as much as possible. If savings are not achieved by voluntary means, however, mandatory measures will be considered.

Q. Will the mandatory thermal standards delay recovery for the construction industry anticipated during the second half of 1975?

A. Since the mandatory thermal standards proposed will take six months to formulate, and subsequently will be implemented in a phased program over three years, this conservation action should have no impact on the recovery of construction expected during 1975.

Q. Why did you decide against mandatory appliance standards?

A. As in the case of automobile efficiency standards, before the Government should intervene in the marketplace, industry should be provided an opportunity to demonstrate that it can act responsibly and responsively to the higher value on energy. For this reason, we have allowed a short period for industry to voluntarily institute measures to increase energy efficiency in appliances and have asked the Energy Resources Council to work with industry to establish the voluntary standards.

Q. Why haven't you initiated any new public transportation programs?

A. We are already doing a number of things to stimulate use of mass transit, including a rapid increase in funds for its development. Additional actions have not been taken because they would only result in small additional savings of energy.

Q. Do you think your total energy program places as much emphasis on conservation as it does on resource development?

A. Yes. The program being proposed is a tough mandatory energy conservation program and relies heavily on conservation to reduce imports in the short-term.

EMERGENCY PLANNING MEASURES

EMERGENCY STORAGE

Q. What kind of specific authority are you requesting with regard to emergency storage?

A. We are requesting authority to create and maintain a strategic reserve capacity of more than 1 billion barrels of petroleum and petroleum products and the authority to determine under what circumstances and to what extent those reserves should be used during emergency situations. This is sufficient to provide 3 million barrels of oil per day for a full year.

Q. What is the benefit of a storage program to safeguard against an embargo if it won't be operational until 1980?

A. While it is true that a storage program won't be fully operational before 1980, it will provide some protection between now and then as stocks are gradually accumulated. Further, we will need the protection provided by a storage program after 1980, as the nation will continue to be dependent upon foreign imports to meet some portion of its energy needs. During this interim period, we will continue our efforts toward stringent conservation by all consuming nations.

Q. How will the program be financed and will the ownership be public or private?

A. We have not firmly established yet how the program will be financed or who will own the storage facilities. These questions will be fully explored later in the planning and engineering stage.

Q. What products will be stored - crude as well as refined products?

A. We currently anticipate that we will store predominantly crude oil, although there will probably be some storage of petroleum products, mainly for the needs of the Northeastern part of our country. The specific amounts of each type of storage will be determined in the planning stages.

Q. Why would oil be stored in salt domes located in the Gulf Coast, when other regions are heavily import dependent?

A. Suitable salt domes provide inexpensive storage facilities and are located near crude oil distribution centers, refineries, and transportation facilities. Thus, during an embargo, oil stored in salt domes will be readily available to all sections of the country at equitable cost.

Q. How will the military be provided for in the event of another embargo?

A. Of the 1.3 billion barrels of petroleum emergency storage capacity, 300 million barrels will be reserved for national defense needs in case of an emergency.

Q. Won't petroleum for storage have to be purchased from high priced foreign oil?

A. No. We will not purchase significant quantities of oil for at least a couple of years, at which time prices may have broken. In addition, our strategic reserves will be partially filled from domestic sources.

Q. Will we store all the oil in salt domes, or will some be stored in conventional tanks?

A. The type of storage facility, location and the mix of crude oil and product to be stored will be determined in a report to Congress one year after enactment of the Strategic Reserve Bill. However, preliminary studies indicate that crude oil will comprise the majority of the reserve and will be stored in salt domes, although there will probably be selected product storage in steel tanks.

STANDBY AUTHORITY

Q. What kind of standby authority are you asking for?

A. The main features of the proposed legislation to deal with emergency situations are:

- to allocate and control the price of domestic oil;
- to ration end use of energy directly if necessary;
- to implement energy conservation programs;
- to increase domestic oil production and allocate supplies of critical materials.
- to regulate and control petroleum inventories.

This legislation will also contain authority for the U.S. to comply with the International Energy Program requiring international sharing of oil in times of emergency.

Q. Why are you asking Congress for standby energy emergency authorities?

A. In an emergency situation, such as an embargo, the President should have the authority to act quickly and effectively to minimize the impact on this country. Furthermore, standby conservation authority is one of the requirements of the International Energy Plan. I must emphasize, however, that this is "standby" authority to be activated only in a time of crisis.

LONG-TERM ACTIONS

RESEARCH AND DEVELOPMENT

Q. What are you doing about solar energy development?

A. Federal funding for solar energy R&D has climbed from approximately $3 million in FY 1972 to approximately $50 million in FY 1975. The recently enacted Solar Heating and Cooling Demonstration Act of 1974 provides an additional $60 million over five years for developing and demonstrating solar heating and cooling technology. Planning is well underway to implement this program. The Solar Research and Development Act which was also just recently enacted authorizes another $75 million in FY 1976 for solar energy R&D. The Administration is continuing to review the requirements of the program to determine the appropriate level of funding that can be usefully spent over the next five years to develop solar energy technology.

Q. What are your specific proposals with regard to increasing nuclear R&D?

A. Nuclear energy holds great promise in satisfying our energy demand. Unfortunately, it now accounts for only 1% of our energy needs due to technical problems, construction delays, and other bottlenecks which have slowed its progress. We are markedly increasing the budget appropriation for nuclear waste disposal and for continued improvements in safeguards.

Q. Will your Synthetic Fuels Commercialization Program encourage oil shale development at the expense of the environment?

A. No. The program could lessen environmental impacts if we can learn to commercialize cleaner types of production, such as in-situ processing of oil shale. In addition, one of the important purposes of this program will be to investigate and determine the environmental problems associated with synthetic fuels development and to identify the solutions.

Only when we have developed commercially useable technologies which are environmentally acceptable will we proceed to the final step of full commercial implementation.

Q. Many environmentalists are concerned about the development and use of the nuclear breeder reactor -- what is the Administration's position on this issue?

A. We have continued support of an expanded R&D program for breeder reactors and will spend over $500 million in FY 76 to answer some of these questions.

All projections indicate that nuclear power will become an increasingly important source of electric power generation. However, for such growth to occur, nuclear fuel will need to be readily available, for our supply of economically available domestic nuclear fuel is limited. Thus, we must supplement this domestic supply by developing other supply sources.

The breeder reactor is one such supply source. Other sources of nuclear fuel and other methods for nuclear power generation are also being investigated.

Q. What role will ERDA play in achieving these goals?

A. ERDA's mission is to develop ways of using solar energy, geothermal energy, nuclear power, coal gasification and other new or undeveloped energy sources and will play a major role in achieving our long-term goals.

ECONOMIC IMPACT

ECONOMIC IMPACT

Q. What impact will be made on the Federal budget by those programs proposed within the energy message?

A. There will be very small budget impacts in FY 75. In FY 76 these programs could increase Federal obligations by 100-200 million dollars, mostly for conservation and facility siting programs, but of course those are more than offset by the revenues raised by the conservation tax measures.

The emergency storage program will be financed from a special fund which will utilize revenues from Naval Petroleum Reserve production.

Q. The Administration expects prices of energy and energy-intensive goods to rise, and plans to offset the impact by reducing income taxes. Won't this affect individuals and income groups differently? Will low-income households tend to be affected more? How does the Administration plan to assist low-income households?

A. Individuals and income groups will be affected differently by these proposals. What we can do and are doing is to provide a level of tax relief that will stimulate the entire economy for the benefit of all citizens. These tax cuts proposed by the Administration will provide relief to low-income households. In addition a rebate of $80 per adult will be provided to individuals whose incomes are so low that they do not pay taxes.

Q. What are the long run and short run effects of the President's program on the regional costs of energy?

A. While there will be some significant fuel price increases in the Northeast, the uneven regional effects will be dealt with through the existing cost equalization program and lower product import fees. In the longer term, regional effects will be handled by decontrolling the price of crude oil and thus eliminating any petroleum price differentials.

Q. What will the effects of the program be on the economy in terms of inflation and recession?

A. This program contains the balancing elements essential to meet the problems inherent in the existing economic environment. It will reduce our balance of payments, increase domestic resource development, and encourage recognition of the need for energy conservation and the fact that energy is no longer abundant. This program will produce higher prices in the short run which will result in a one-time increase in inflation, but will prepare us for dealing with future energy disruptions which could be devastating to our economy.

Q. How much will all your programs increase the average family's bills in a year?

A. This program is estimated to increase the average middle-income family's energy budget by about $250 in 1975.

Q. What will be the effect of this program on the dollar outflow for oil?

A. The United States spent $2.7 billion on petroleum imports in 1970. This dollar outflow rose to $23.6 billion in 1974. If no new actions are initiated, we estimate the petroleum revenue outflow to reach $32.1 billion in 1977 and $32.4 billion in 1985. With this program, we estimate outflows to be $21.3 billion in 1977 and $12.0 billion in 1985.

INTERNATIONAL

INTERNATIONAL

Q. How do you expect the OPEC producing countries to react to your energy program?

A. Most of the OPEC governments have urged on several occasions that the U. S. and other consumer countries adopt policies to encourage conservation and more rational energy use. Many of them have also suggested that the industrial countries accelerate the development of alternative energy sources to reduce demands on their non-renewable petroleum reserves. We believe these features of the President's program will be viewed favorably by the producing countries as well as by other importing countries.

Q. Will we get any North Sea oil? Mexican oil?

A. While the United States will strive to achieve energy independence, we will still have to import some oil and will try to import from relatively secure sources. We will pursue negotiations with Mexico and with North Sea oil producers to add imports from these areas.

Q. Regarding Canada's decision to phase out exporting crude to the U.S., what effect will this have on the U.S., particularly on the Upper Midwest supply and demand situation?

A. Domestic refiners in the upper Midwest will be obliged to obtain their crude oil from alternate sources. This will probably require the construction or expansion of pipeline capacity. Marketers in this region may be able to obtain refined products from Canada should a crude shortfall develop in the interim. Demand will be unaffected unless a severe product shortage arises, with its attendant gasoline lines and other inconveniences. Careful planning and timing should enable the change in supply patterns to take place with a minimum of disruptions in product availability or price.

GENERAL

GENERAL

Q. Do you believe that the National Environmental Policy Act (NEPA) is a hindrance to the development of domestic energy production?

A. No, I do not. NEPA was promulgated to insure that environmental concerns were considered in Government decision making. Because of this new, major consideration, decision making will in many instances take more time and require more detailed review than was required in the past. However, this process should ensure that the energy projects selected will maintain the quality of the environment.

Q. What would be the projected profit picture for the oil industry this year if a windfall profits tax were enacted? If one were not enacted?

A. Either way, we estimate that profits will be relatively constant this year. If we maintain price controls but do not enact a windfall profits tax, we can expect industry profits to remain stable. If we decontrol old oil and enact a tax, we can expect a small decrease in profits from last year's levels.

Q. What are you going to do about getting New England to build refineries?

A. The Administration intends to encourage refinery construction in all areas of the country and particularly in those in which there is a significant refining deficit. In New England, for example, it would be beneficial to have refining capability now and particularly if Atlantic OCS production begins. Refineries in that area could offset New England's extensive reliance on product imports and could create jobs.

Q. Why do we say that independence and self-sufficiency can now be attained in 1985 rather than 1980 as was earlier announced by President Nixon?

A. After a thorough review of potential domestic supply and demand for all fuels, on a regional basis, we have concluded that independence by 1980 cannot be attained. The lead-times for exploring and producing oil from new sources and for constructing new facilities is too great to expand domestic supply sufficiently.

Q. How can you propose great increases in resource development when it is a fact that there are acute shortages of materials and equipment throughout the economy?

A. At present, many categories of steel products, plate and tubular goods are in short supply. There is little that can be done to accelerate supply in the next 2-3 years and that is why this program concentrates on reducing demand. Within the 1975-1985 time period, however, new capacity will come on-stream and the problem will be eased.

Q. In compiling your energy message, whose statistical data did you rely on -- industry or government?

A. Ours. One of the real achievements in the last year was growth in the capability of the Federal government to provide its own energy data. The analyses in this program were developed by the government using its own reporting systems and analytical tools.

Q. What can the public do to contribute to the success of your program?

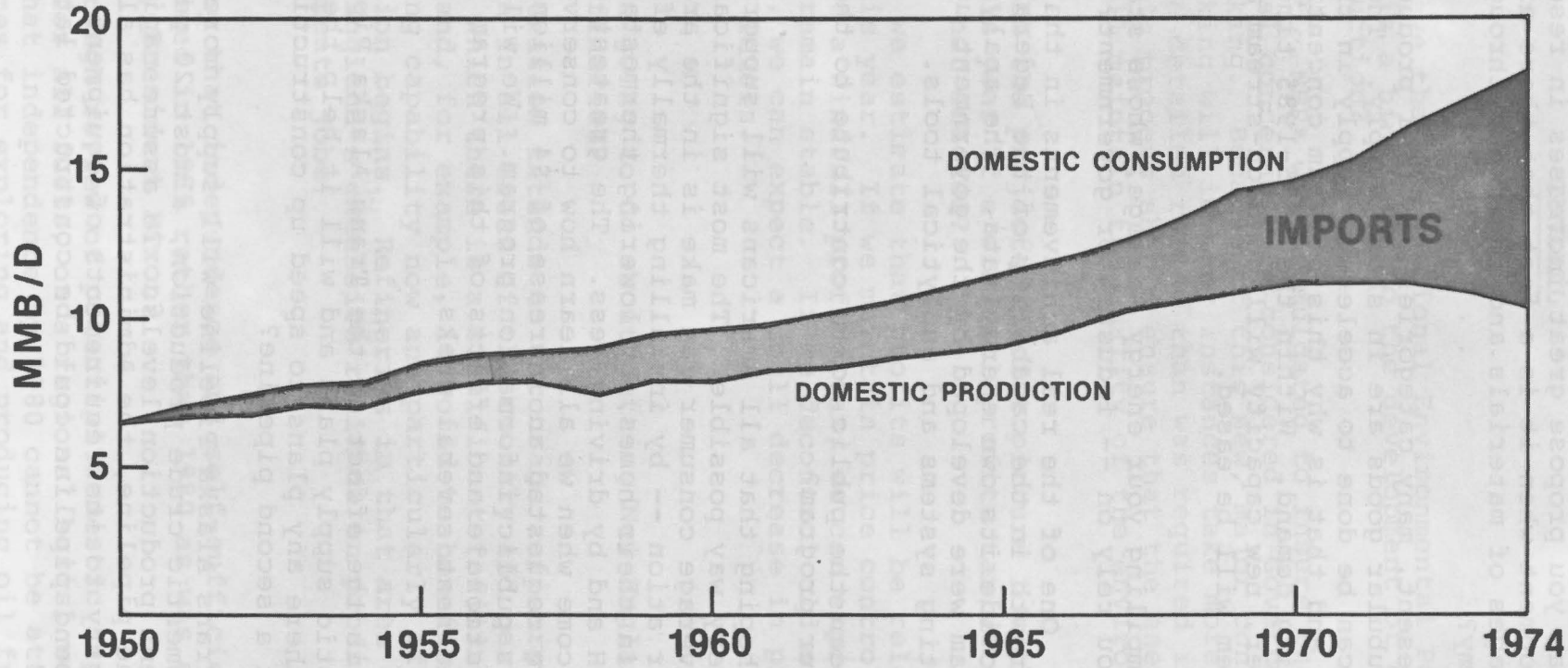
A. I am hoping that all Americans will support this program in every way possible. The most significant contribution the average consumer can make is in the area of energy conser ation -- by installing thermally efficient insulation in their homes, by lowering thermostats, by driving 55 MPH and by driving less. The greatest contributions will come when we all learn how to conserve which is why I have requested an increase of $4 million in the government's public information program. We will try to explain the rationale and effects of this program to all Americans in the next several weeks.

Q. What is the effect of the Trans Alaska Pipeline on domestic supply plans and will it help the situation? Are there any plans to speed up construction? What about a second pipeline?

A. The Trans Alaska Pipeline will supply more than 2 MMB/D of domestic crude production, almost 20 percent above current production levels. To assure rapid completion of the pipeline, the Administration has already given priority to its requirements of equipment and materials. A second pipeline could be constructed later if necessary.

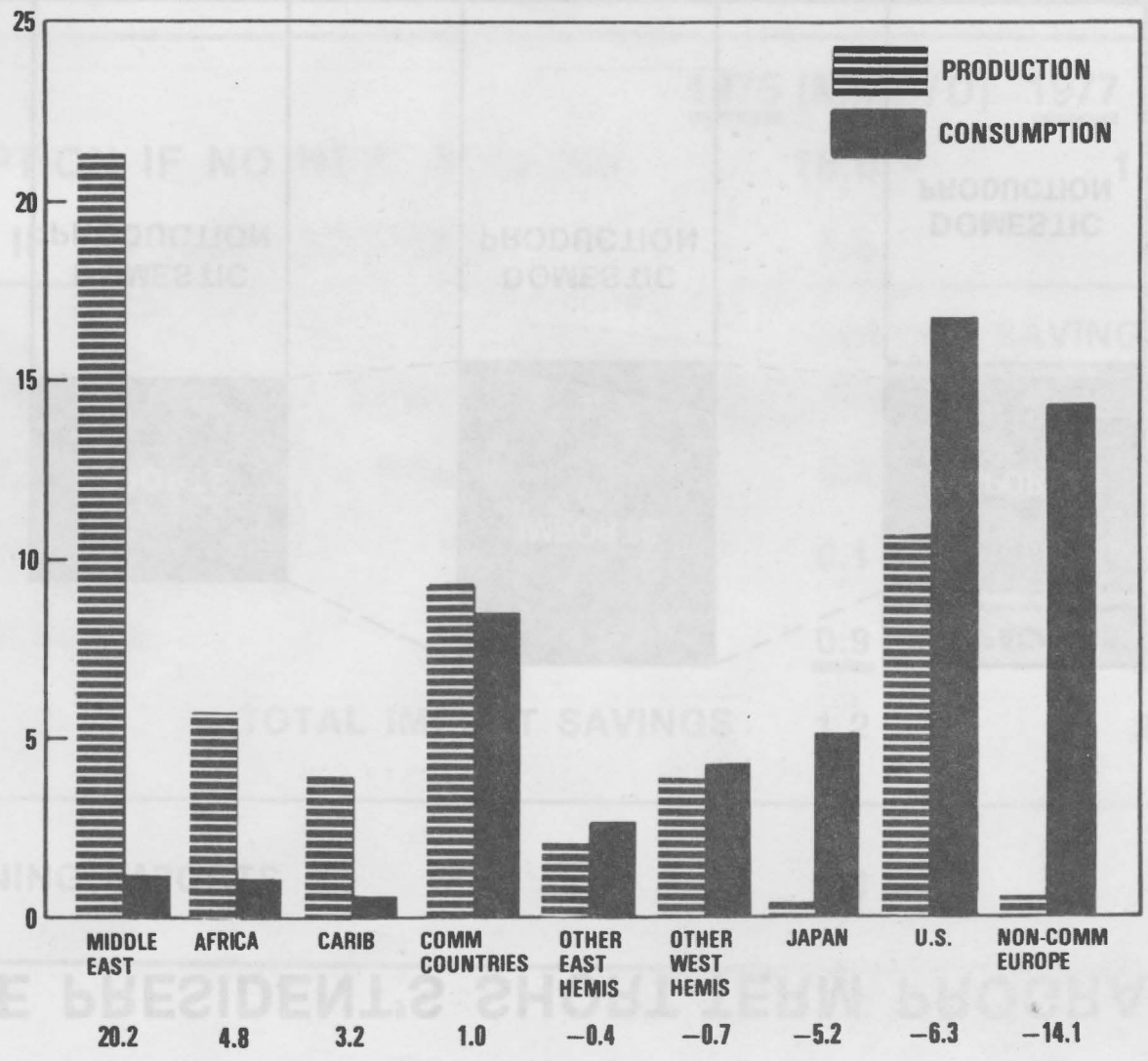
GPO 882-971

PETROLEUM TRENDS



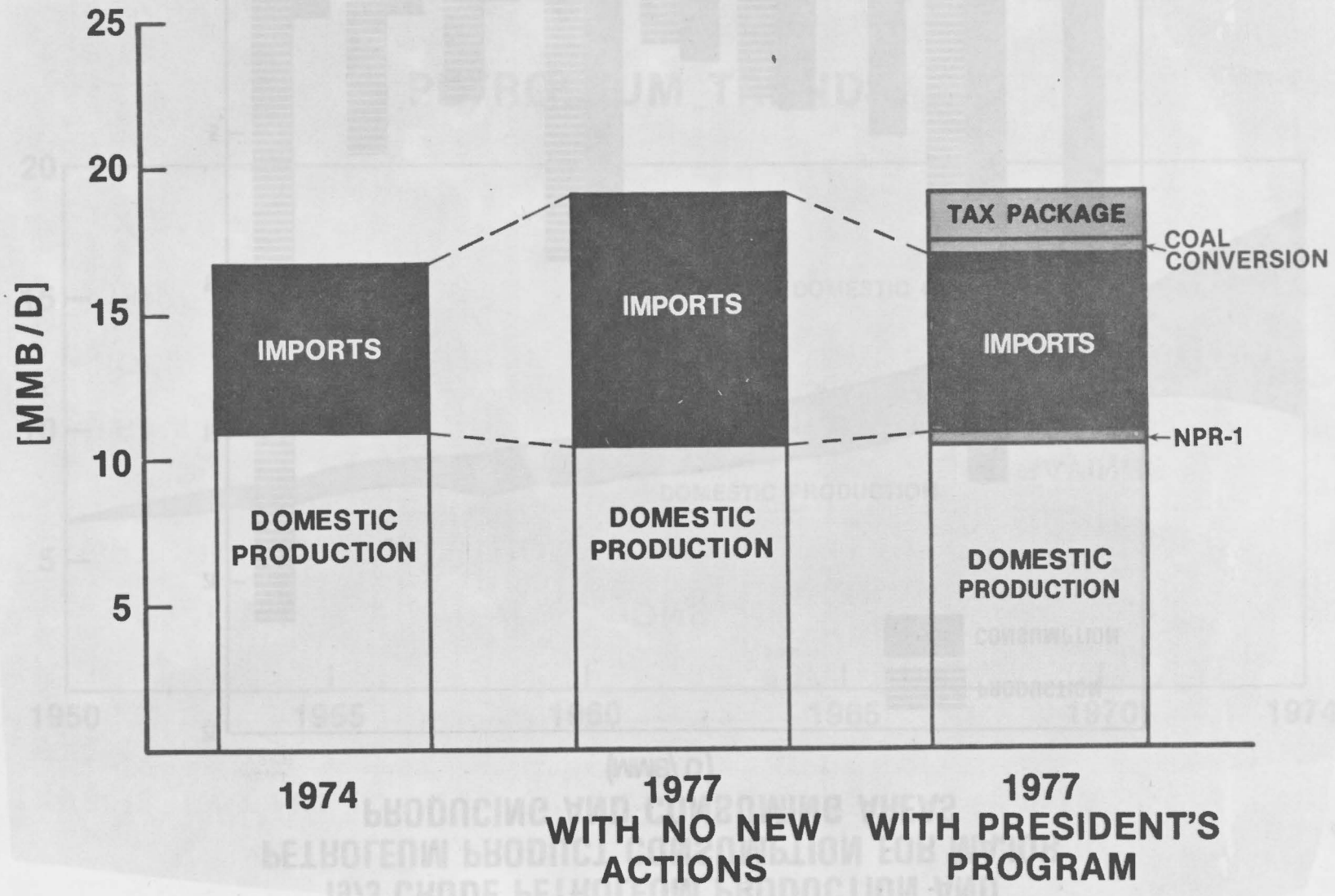
1973 CRUDE PETROLEUM PRODUCTION AND PETROLEUM PRODUCT CONSUMPTION FOR MAJOR PRODUCING AND CONSUMING AREAS

(MMB/D)



(PRODUCTION MINUS CONSUMPTION)

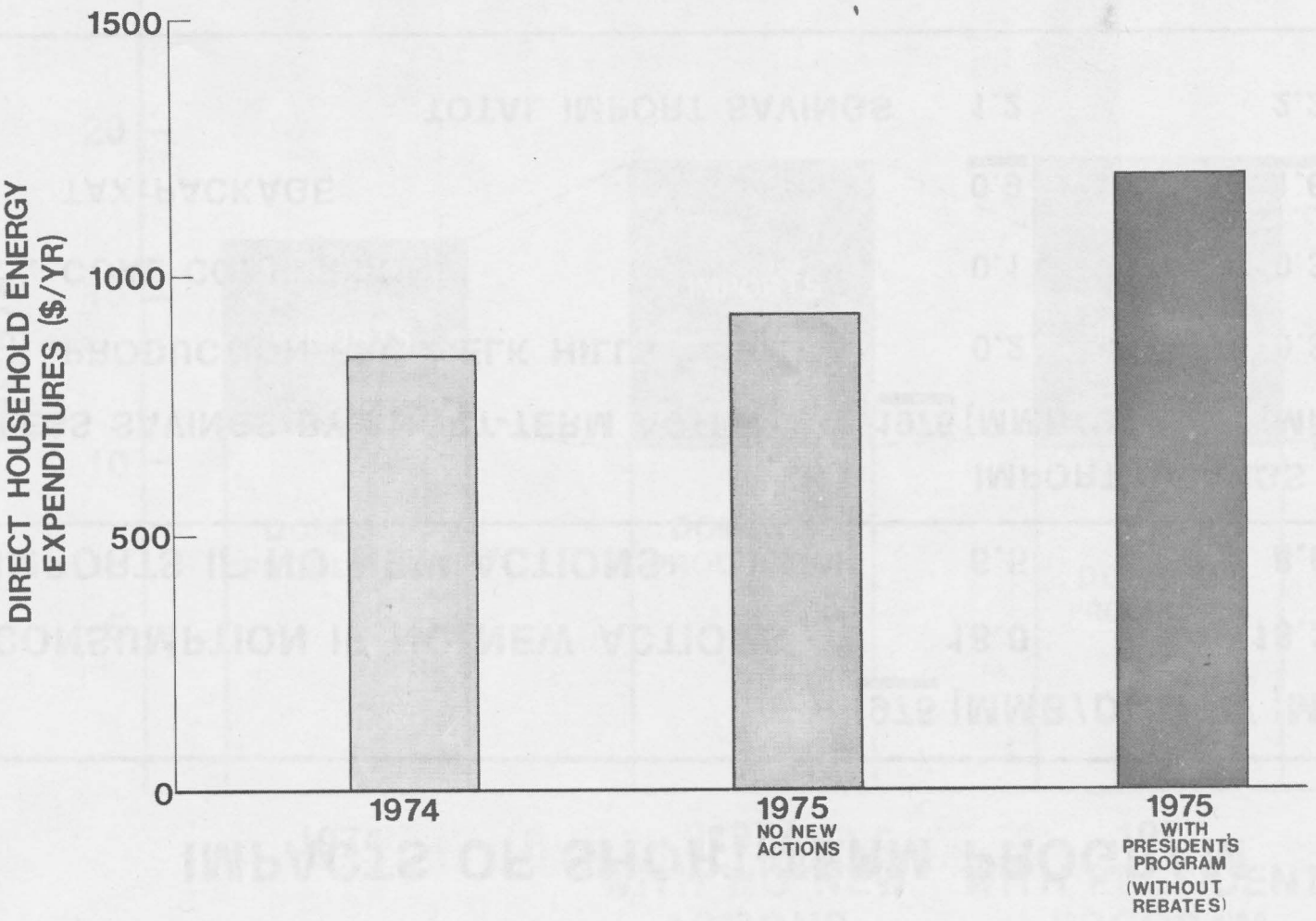
THE PRESIDENT'S SHORT-TERM PROGRAM



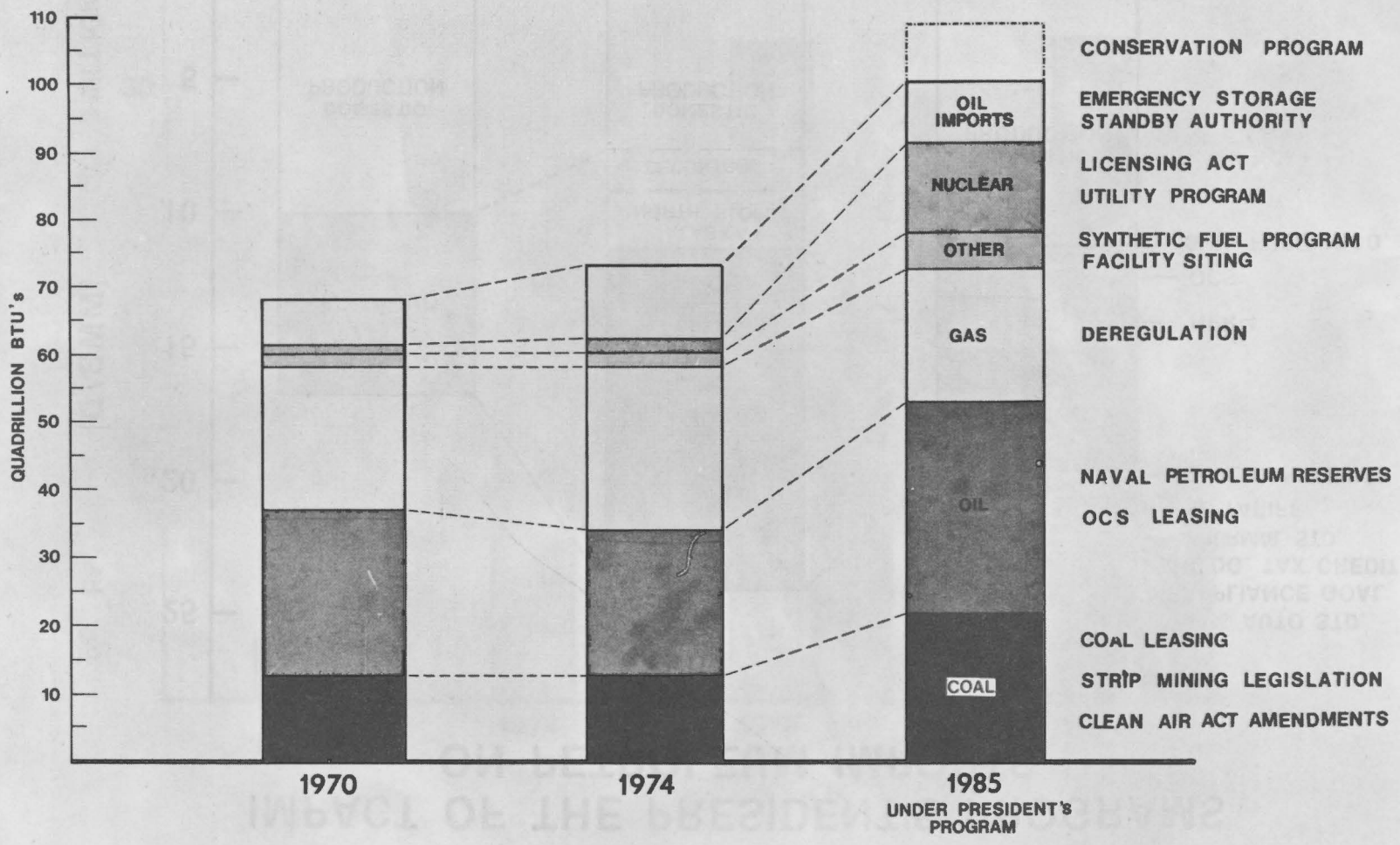
IMPACTS OF SHORT-TERM PROGRAM

	1975 [MMB/D]	1977 [MMB/D]
CONSUMPTION IF NO NEW ACTIONS	18.0	18.3
IMPORTS IF NO NEW ACTIONS	6.5	8.0
	IMPORT SAVINGS	
LESS SAVINGS BY SHORT-TERM ACTIONS:	1975 [MMB/D]	1977 [MMB/D]
PRODUCTION FROM ELK HILLS	0.2	0.3
COAL CONVERSION	0.1	0.3
TAX PACKAGE	0.9	1.6
TOTAL IMPORT SAVINGS	1.2	2.2
REMAINING IMPORTS	5.3	5.8

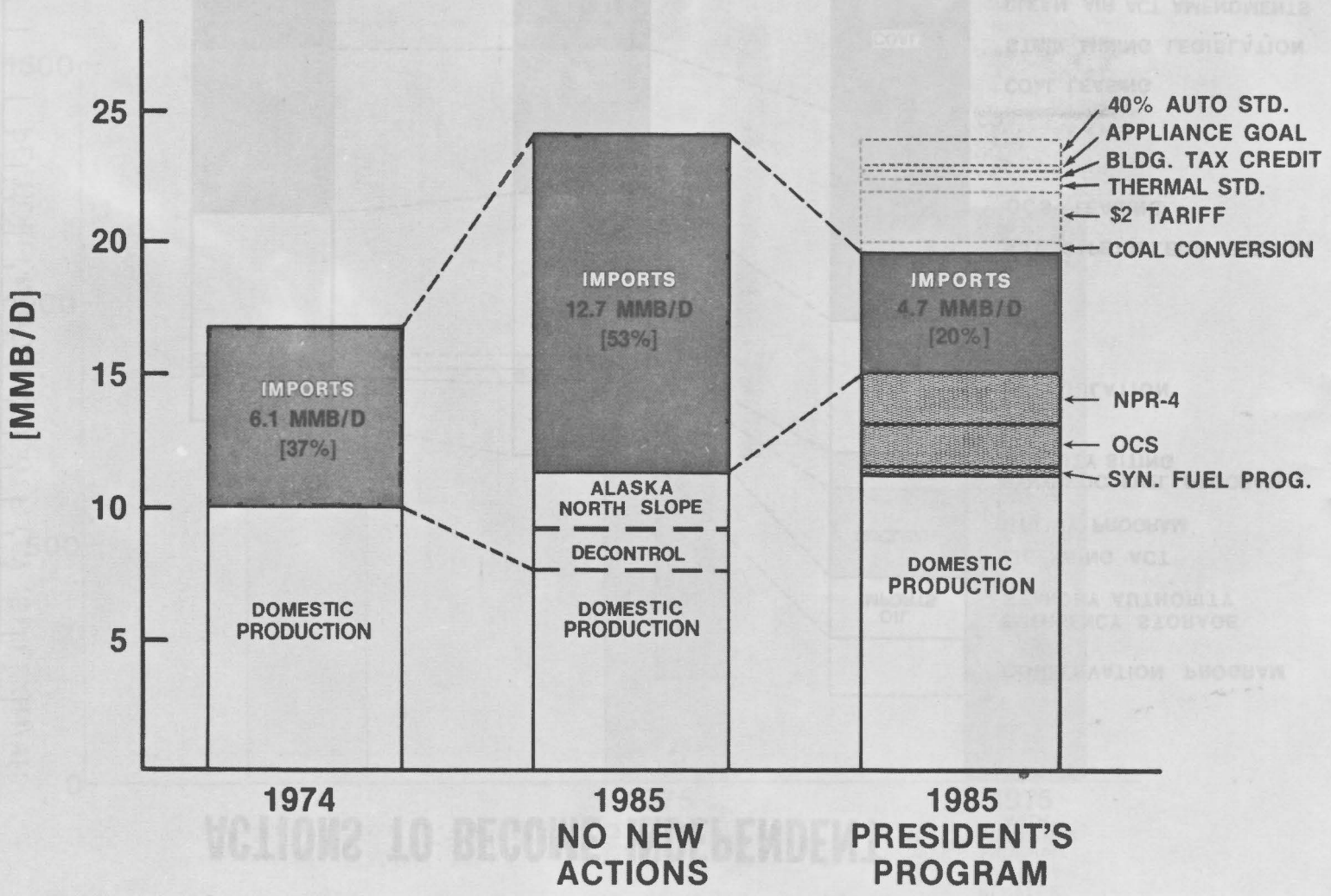
PRICE EFFECTS OF PROGRAM



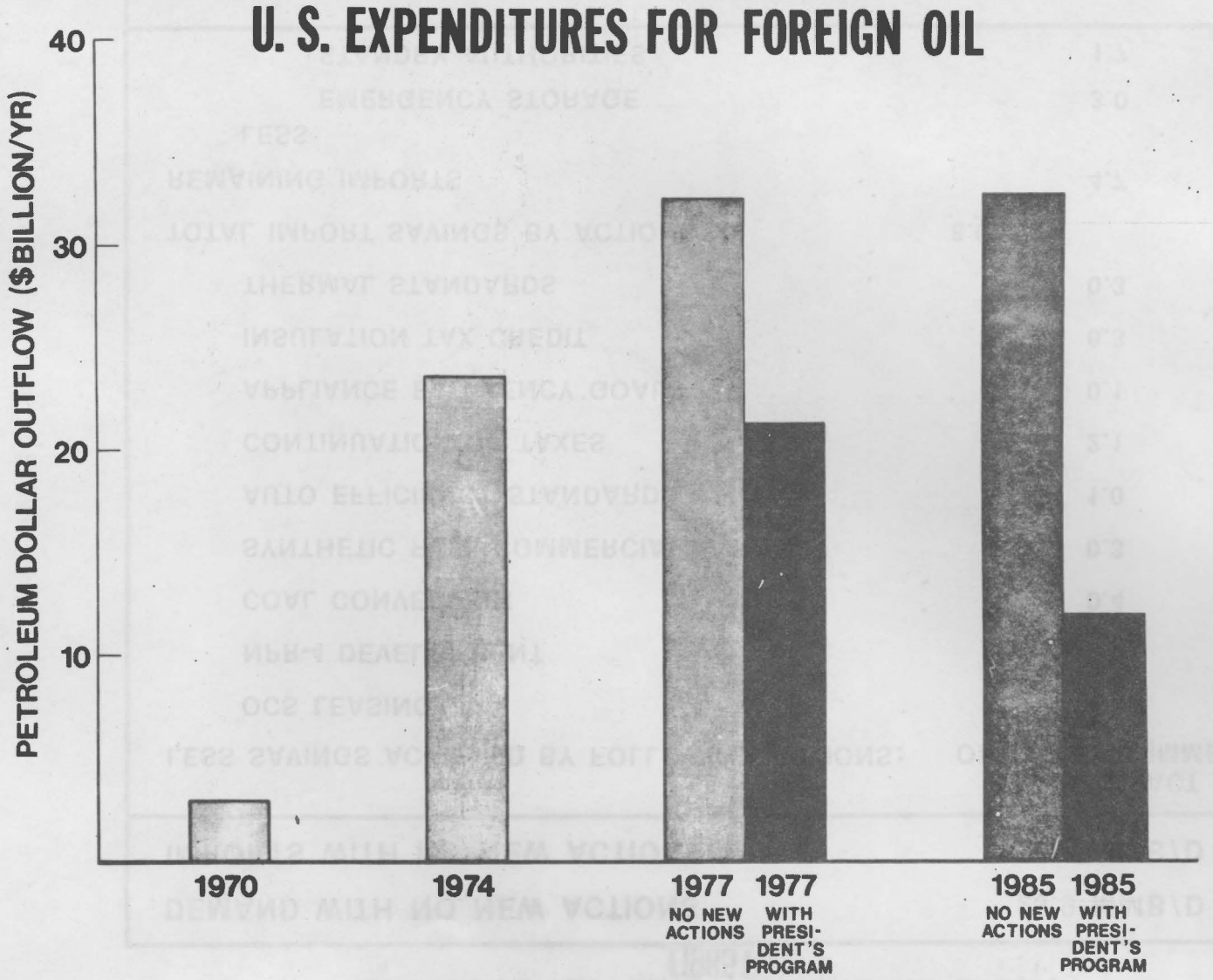
ACTIONS TO BECOME INDEPENDENT



IMPACT OF THE PRESIDENT'S PROGRAMS ON PETROLEUM IMPORTS



U. S. EXPENDITURES FOR FOREIGN OIL



EFFECTS OF MID-TERM PROGRAM (1985)

DEMAND WITH NO NEW ACTIONS	23.9 MMB/D
IMPORTS WITH NO NEW ACTIONS	12.7 MMB/D
LESS SAVINGS ACHIEVED BY FOLLOWING ACTIONS:	1985 IMPACT ON IMPORTS [MMB/D]
OCS LEASING	1.5
NPR-4 DEVELOPMENT	2.0
COAL CONVERSION	0.4
SYNTHETIC FUEL COMMERCIALIZATION	0.3
AUTO EFFICIENCY STANDARDS	1.0
CONTINUATION OF TAXES	2.1
APPLIANCE EFFICIENCY GOALS	0.1
INSULATION TAX CREDIT	0.3
THERMAL STANDARDS	0.3
TOTAL IMPORT SAVINGS BY ACTIONS	8.0
REMAINING IMPORTS	4.7
LESS:	
EMERGENCY STORAGE	3.0
STANDBY AUTHORITIES	1.7
NET IMPORT VULNERABILITY	0