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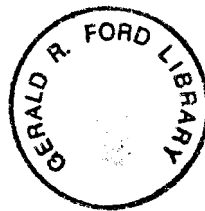
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NON-PROLIFERATION



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NON-PROLIFERATION

Background

The problem of preventing the further spread of nuclear weapons and independent explosives capabilities is now at a crucial stage. Technical developments and political trends will increase the difficulty of deterring further nuclear spread in the coming decade. Commercial nuclear power generation is coming into wider use throughout the world stimulated by the energy crisis, and US dominance in this field is diminishing. We are also entering a period when political barriers to non-proliferation appear to be weakening, given movements toward a multipolar world and decreasing credibility with respect to security guarantees. As a result of the Indian nuclear test, other non-nuclear weapons states may re-think their decisions regarding the acquisition of nuclear explosives. These trends could adversely affect the future of the Non-Proliferation Treaty (NPT) through setbacks in the ratification process in Japan and the European community countries, generally damaging the longer-term efficacy of the treaty as a non-proliferation instrument.

US Strategy

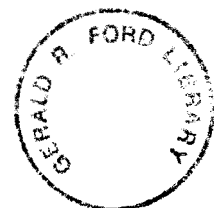
Inhibiting the spread of nuclear weapons has been a consistent and important element of US policy for the entire nuclear era. The basis for our non-proliferation interest is the assessment that the danger of nuclear war as well as world instability would significantly increase with an unrestrained spread of nuclear weapons. Acquisition of nuclear weapons would also give nations a sense of greater independence, thus complicating international diplomacy and diminishing American influence, and it is possible that eventually various nations or even subnational groups could attempt to engage in nuclear theft and blackmail. With additional nuclear weapons states, it would become more difficult to negotiate international arms control agreements, and progress in limiting the bilateral US-USSR strategic competition would be substantially complicated.

In terms of formulating a specific US strategy, NSSM 202 directed a review of present non-proliferation policy, and a recently updated NSSM 156 study focussed on specific options

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and courses open to us in dealing with India. On the basis of these studies, there has emerged the outlines of an overall policy aimed at deterring further nuclear proliferation through practical measures which can (1) deny non-nuclear weapons states the full range of materials and equipment needed to produce nuclear explosives, and (2) strengthen the political, legal, and security inhibitions against proliferation. Although our success in totally inhibiting additional proliferation cannot be guaranteed, it would serve US security interests to defer an expansion of the number of nuclear powers as long as possible.

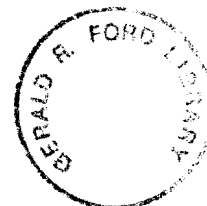
Recognizing that the US cannot by itself establish an effective and durable non-proliferation regime, our non-proliferation program would exploit the common interest of many key countries in preventing further nuclear spread by providing for concerted multilateral action. In addition to reliance on basic functional tools for slowing nuclear spread which can be generally applied, the strategy involves a series of specific approaches tailored to important countries, potential nuclear weapons states as well as existing nuclear powers. It is envisaged that a conference of nuclear industrial states could provide an effective device for orchestrating those elements of a multilateral non-proliferation strategy which relate to export policies.

In brief, the elements of a potentially productive non-proliferation effort are as follows:

a) Develop more effective multilateral export controls and limits for nuclear materials and technology (particularly uranium enrichment and fuel reprocessing) and improve physical safeguards on nuclear facilities provided to non-nuclear weapons states.

b) Develop an internationally agreed approach to minimizing the risk of indigenous "peaceful" nuclear explosives (PNE) developments in non-nuclear weapons states through agreements not to assist such states in acquiring PNEs, and giving more attention to means of assisting non-nuclear weapons states to obtain PNE services, should legitimate needs for such services arise.

c) Support the Non-Proliferation Treaty, particularly in the period leading up to the NPT Review Conference scheduled for May 1975, by working with other Treaty proponents to gain the adherence of non-parties, such as Japan and Italy, and by adding to the benefits which adherence



bestows (e.g., improved credit terms for the purchase of nuclear materials and equipment).

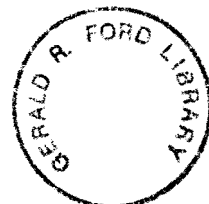
d) Limit the adverse consequences of the Indian explosion by such measures as seeking India's utilization of international safeguards for any supply of nuclear materials by it to others, and attempting to reduce the scope and pace of the Indian nuclear explosive program.

In the execution of a non-proliferation policy built upon the foregoing concrete elements, it should be borne in mind that success will also depend upon perceptions of non-nuclear weapons states regarding progress in US-Soviet arms limitations as well as the confidence of these states that their security and political needs can continue to be met without recourse to independent nuclear forces. In this sense, our overall foreign and defense policy, the relative stability of regions of potential conflict in the world, and the general structure of peace in the international system has an important bearing on the longer-term prospects for limiting the spread of nuclear arms. At the same time, prudence dictates that the US should study the problem of how to shape our security posture in a world environment of larger numbers of independent nuclear states as a means of hedging against the failure to contain fully the further spread of nuclear weapons capabilities.

The Situation Now

In response to their initiatives and consistent with the general guidelines of our emerging policy, we have held discussions informally with British, Canadian, and FRG representatives which clearly affirmed the intense interest of these nations in playing a major role in a worldwide effort to halt further nuclear spread. On an international level, the UN General Assembly will continue to provide a broad forum for responding to non-proliferation concerns and taking initiatives. In preparation for the May 1975 NPT Review Conference, we will continue to participate in preparatory meetings in an attempt to assure that the NPT will continue to be "recognized as contributing importantly to international peace and security and with prospect of more accessions."

Proposals are being formulated to provide the basis for a final decision to launch a conference of nuclear industrial states as a means of instituting a multilateral export control

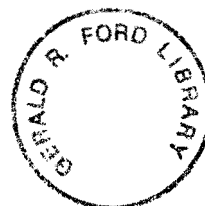


strategy. Plans have been made to discuss this issue with the Soviets later this month and to approach the French to elicit their support. If appropriate responses from these crucial governments are obtained through advanced consultations, we would hope to move forward and contact other proposed conference participants -- the FRG, Canada, the UK, and Japan. This is consistent with the reference made by the Secretary of State at the UNGA to the fact that the "United States will shortly offer specific proposals to strengthen safeguards to other principal supplier countries."

In an effort to close the "PNE loophole", actions have been completed to obtain from the Government of India the necessary assurances that materials associated with the American-supplied Tarapur power reactor will not be used for any nuclear explosives purpose -- "peaceful" or military. In general, the US has steadily maintained that the technology of making nuclear explosive devices for peaceful purposes is indistinguishable from the technology of making nuclear weapons, in the case of the non-nuclear states. This approach is consistent with our obligations under the NPT and is shared by the UK, Canada, over a dozen nations participating in the multilateral Zangger (Exporters') Committee, and by the IAEA Director General. Some countries (e.g., India) have tried to argue that Article III of the US-Soviet TTBT "legitimizes" PNEs. However, if we negotiate PNE procedures with the Soviets under the TTBT, it will be in the context of technologies and applications relevant only to advanced nuclear weapons states.

The proposed visit by the Secretary of State to India offers an opportunity to explore non-proliferation matters with the top political leaders of that country. Our objectives will be to progress toward attaining Indian agreement: (a) to restrain further nuclear testing and not undermine the NPT structure; (b) to safeguard and control exports of nuclear materials, equipment and technology; and (c) to provide more concrete and credible assurances of its declared peaceful nuclear intentions, generally and vis-a-vis Pakistan in particular.

We have placed special conditions on proposed sales of power reactors and provision of enriched uranium fuel to Egypt and Israel, and, in response to Congressional concerns, have further tightened those conditions. The Agreement for Cooperation and associated Diplomatic Note, if successfully negotiated with the nations in question and not blocked by Congressional action, would impose an unprecedented set of



conditions designed to ensure that materials and equipment provided by the US are not used for nuclear explosions. The US approach to these reactor agreements is consistent with non-proliferation and the concept of seeking coordinated supplier policies to impose comparable conditions on nuclear exports to countries in other sensitive areas. In terms of moving further towards a non-proliferation regime in the Middle East, acceptance of our conditions would commit the Governments of Egypt and Israel to assure that all future nuclear facilities entering their countries would be subject to IAEA safeguards and would not be used for any form of nuclear explosives. If accepted by both nations -- an outcome which presently seems unlikely but possible -- these agreements can create a climate for NPT ratification by Israel and Egypt in the future.

Issues and Choices

In pursuing an effective non-proliferation strategy, the US has to address a number of issues which require balancing of costs and risks, evaluation of credible alternative courses of action, and resolution of difficult policy dilemmas. Among the more crucial issues are:

-- Judgments regarding the priority to be placed on non-proliferation, recognizing the potential of conflict with other foreign policy objectives, and the risk of excessive pressure having counter-productive consequences.

-- The role the US should play in the context of a global non-proliferation effort, given our dominant but diminishing capacity for influence and the benefits of a coordinated multilateral program.

-- The extent to which feasible and desirable measures can be taken to assure non-nuclear weapons states that they will be free from nuclear threat and that their political needs will not require nuclear arms.

-- The degree to which a non-proliferation strategy should rest upon the NPT, considering the political-legal power of the treaty and its concrete provisions for comprehensive safeguards but accepting the practical necessity of deterring proliferation in states unlikely to participate.



-- How we make our international peaceful nuclear programs more responsive to the rapidly-rising demand for commercial nuclear energy without compromising our non-proliferation objective.

-- How to resolve the issues of dealing with India in a way which serves our non-proliferation strategy by not condoning the Indian nuclear test decision and thus creating incentives for others to follow suit, yet recognizing the need to gain India's cooperation in demonstrating peaceful intent and placing proper safeguards over its nuclear exports.

Next Steps

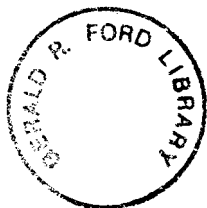
Two important steps need to be taken in order to launch our renewed, multilateral non-proliferation effort:

First, if satisfactory responses from the Soviets and the French are received, detailed plans for moving ahead with a conference of nuclear industrial states should be developed. This will involve interagency efforts to further refine safeguards objectives, devise procedural arrangements, and consider post-conference activities.

Second, within a multilateral context and related to plans for the forthcoming treaty review, seek early NPT ratification by key states. This would involve approaches by the FRG and the UK, with US support, to the Italian Government, and high-level communications with the Japanese by the US and other NPT proponents



Food, Fertilizer and
Population



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FOOD, FERTILIZER, POPULATION

BACKGROUND

A peaceful world requires adequate food. The world population is almost 4 billion, increased by about 76 million in 1973, and at current growth rates (2%) will double in 35 years to 8 billion. With rising incomes diets improve, further adding to demand.

A 4 percent decline in world food production in 1972 -- the first absolute decline in 20 years -- triggered the present world food problem. Harvests in 1973 were good, but production this year has again been disappointing. World wheat and corn production in 1974 is down by 25 million tons.

World reserves are depleted. Food prices are at record or near-record levels. Efforts to rebuild stocks are hampered by a world shortage of nitrogenous fertilizer and high prices for all fertilizers. There is some concern that the world's weather may be shifting unfavorably. The drought across North-Central Africa and erratic monsoons in South Asia are indicators.

These trends and coincidences have focused attention on the food problem. At our initiative, the UN has scheduled a World Food Conference for this November. A World Population Conference was held in August.

The essential elements in a world food strategy, in which the US must play a leading part, are:

-- Increase global food production to meet the needs of an expanding global population.

-- To assure that we avoid past problems of large food surpluses which we were unable to market at prices which would not discourage new production, we need new ways to transfer real purchasing power to food deficit developing countries where the need for food exceeds both global production and effective demand.

-- Rebuild world food reserves to cover future bad crop failures and mitigate their disruptive impact on our domestic and world commercial markets.

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-- Provide better mechanisms for food aid to improve nutritional standards while retaining flexibility to use Title I-type food aid transfers to support important US foreign policy objectives.

FOOD

US STRATEGY/THE SITUATION NOW

A key element in our strategy is maximizing production. We have removed acreage restrictions. Had weather conditions been favorable, US production this year of most major commodities would have been well above previous records. The complementary priority is assistance to the LDCs to increase their agricultural output. For FY-75 we have requested \$676 million of AID funding for food and nutrition -- up from \$285 million planned in FY-74, and we must work with the new Congress to get as much of this as possible.

At the World Food Conference in November we hope to achieve international agreement on cooperative efforts to: (1) rebuild world food reserves; (2) increase food production in both developed countries and the LDCs; (3) provide food aid in emergency/disaster situations and (4) meet the needs of countries lacking foreign exchange for essential food imports.

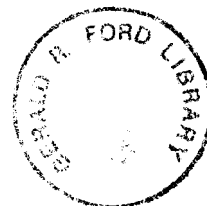
We look to the Multilateral Trade Negotiations (MTN) as the main forum for reforming world agricultural trade to give increased commercial incentives for efficient production. Preparatory work is under way and substantive negotiations can begin when the Trade Bill is passed.

ISSUES AND CHOICES

World and US domestic consciousness of food shortages has been sharpened over the past two years, affording us a unique opportunity to make a potentially historic breakthrough for both the US farmer and our international objectives. We seek to:

-- Maintain US agricultural output at maximum levels;

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-- Organize close cooperation among the main food exporting countries.

To sustain high levels of production without creating market depressing surpluses we need international commitments from the main importers and exporters to a new system of reserves (to be built up gradually), and from the rich countries as a whole (including the oil exporters) to devise an effective method of transferring real purchasing power to food deficit LDCs. The latter would both expand effective demand in LDCs and act to maintain commercial prices at levels which, even if lower than now, would still provide adequate incentive to farmers to maintain maximum production.

The main issues with respect to an international system of reserves are 1) the formula by which reserve-holding responsibility is allocated, and 2) the role of the US Government in holding or guaranteeing the US share. With respect to the transfer of purchasing power to the LDCs, the traditional funding of foreign assistance is unlikely to provide the level of resources required and we have not yet developed mechanisms for recycling oil exporters' financial surpluses to the LDCs on terms they can afford or responsibilities that the DCs, as intermediaries, are willing to accept. The resource transfer problem as it relates to food must be worked out in the larger context of international economic reform, in which world cooperation on energy supplies is also an important element.

NEXT STEPS

-- Outline the above approach in a speech to the World Food Conference in early November.

-- Following the Conference, begin negotiations with major importers and exporters on an international food reserve system and, as required by the progress of those negotiations, reach internal US Government decisions on US participation including the issue of Government-held stocks.

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-- Define more precisely our trade negotiations strategy and objectives in agriculture and integrate our food reserves strategy into them.

-- Early enactment of the FY-75 aid bill with increased assistance to agricultural production in the LDCs.

-- Final decisions on allocating our FY-75 food aid, to be made not later than the end of December.

FERTILIZER

US STRATEGY/THE SITUATION NOW

The present world shortage of nitrogenous fertilizer is the result of low prices and little new plant construction in the late 60s and early 70s, coupled with a sudden increase in demand. High prices will stimulate new plant construction but there will be a 3-4 year time-lag. Since natural gas is the basic feedstock for nitrogenous fertilizer, the oil exporting countries are logical sites for these plants. The US has offered to provide technical assistance.

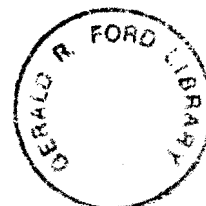
US strategy in the short run is to assist LDCs to make full use of their existing capacity and to take such steps as are possible to see they receive a fair share of world supply, 85 percent of which is produced in the DCs. The US is coordinating its bilateral efforts with the fertilizer assistance pool established by the Food and Agriculture Organization (FAO).

The third element of US strategy is to promote research into new fertilizers and their application, with particular reference to LDCs. AID planning and support for a World Fertilizer Institute is well along.

ISSUES AND CHOICES

The negative effect of fertilizer shortage on LDCs is considerably greater than on DCs, where application rates are high. In the LDCs one ton of fertilizer can add up to ten tons to food production. But there is strong domestic political pressure to be sure US fertilizer needs are met before exports to the LDCs are increased. The fertilizer industry wants to avoid export controls. Despite official encouragement, there has been inadequate response to recent AID tenders for fertilizer shipments to LDCs.

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Except for potash imports from Canada the US is a marginal net exporter of fertilizer. Much of the new capacity for nitrogenous fertilizer will be built near natural gas sources outside the US--such as the Middle East. The US may become dependent on foreign supply. We will need to manage and diversify our fertilizer dependence carefully to remain a reliable food supplier.

NEXT STEPS

AID programs to maximize production from existing fertilizer capacity in the LDCs, to provide technical assistance for constructing new plants, and to expand world fertilizer research are underway.

POPULATION

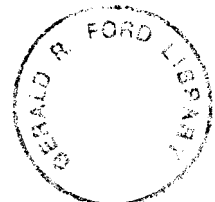
US STRATEGY/THE SITUATION NOW

Population growth is a world problem. But the solutions and most of the effort must be national. US strategy seeks expanding awareness of the population problem and commitment to effective action by national leaders. We strongly supported the work of the World Population Conference and pushed for a World Population Plan of Action calling for decreased birth rate targets which might enable the world to achieve population stability by 2050 at about 8.2 billion. Though a plan was adopted, it is less than we would have preferred.

Countries with some 75 percent of the world's population now accept population control efforts. However, even among countries which have severe population pressures the effort is highly uneven, and many countries, including Brazil, Argentina, Ethiopia, Nigeria, the USSR, Poland and Hungary in fact remain opposed. The built-in momentum of population growth inherent in the young age structure of rapidly growing countries is imperfectly understood. Thus in many countries there is incomplete intellectual and political commitment to population control efforts by governments and political elites.

In the past nine years the US has provided over \$600 million of population planning assistance. US strategy is to mount bilateral programs as requested by host governments (36 to date), and to work through multilateral and private

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organizations elsewhere. Supported activities include demographic data collection and analysis, research in factors affecting fertility behavior and control techniques, the provision of family planning services and information and manpower training.

ISSUES AND CHOICES

Efforts to promote family planning must be pursued by the US in a broad multilateral framework, which makes clear that the US is contributing its share to a program supported by a substantial segment of the world community. Within this context, the issue is how US diplomatic missions can most effectively promote a better appreciation of the population problem in contacts with governments and national elites.

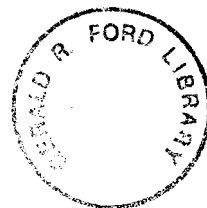
NEXT STEPS

Interest generated at Bucharest should be translated into more aggressive government and private programs. Basically, the US needs to encourage this trend by being prepared to do more of what it has done for the past nine years. The AID budget in support of population activities in FY-74 was \$112 million. We are proposing \$137.5 million for this year.

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OIL CONSERVATION





DEPARTMENT OF STATE

Washington, D.C. 20520

SECRET/EYES ONLY

August 22, 1974

MEMORANDUM FOR THE SECRETARY OF STATE
THE DEPUTY SECRETARY

Oil Conservation on Project Independence

1. White House Transition Team has developed a range of options on energy organization for the President, including leave things as they are, give decision leadership to Simon's Committee on Energy, give leadership and implementation to Interior and so forth. The President is expected to focus on the question this weekend or early next week. As you suggest, tomorrow, August 23, would appear to be the right time to take the issue up with him.

2. Attached at Tab A is a paper approved by Simon arguing the case for giving the lead to his Committee on Energy. I doubt that you would wish to leave this with the President, but you should read it. Simon checked with Morton on giving us this paper, and received a go ahead.

3. At Tab B is a block-out of a conservation strategy. Simon and Bennett are in broad agreement. Simon has developed for the President a proposal to increase taxes (Tab C; this is a very sensitive paper for your eyes only as Simon has denied its existence on television this morning), but is skeptical whether it can fly politically. We share that skepticism.

4. On organization, I believe your message to the President should be: give the Committee on Energy clear, written mandate to prepare Project Independence and conservation decisions by mid-October; give the main implementing role to Interior; consider folding FEA into Interior (this would require new legislation).

5. On conservation, I recommend that your proposal be: taxes are the best way, but probably are not possible soon; therefore use existing authority this fall to raise prices by decontrolling old oil and putting fees or other payments on imported oil; go for excess profits and gas taxation after elections;

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E.O. 12958, Sec. 3.5

State Dept. Guidelines

By dal, NARA, Date 12/17/03



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back up the rising prices by specific conservation guidelines on energy used to the main industrial and consuming sectors; add an international dimension by a high level meeting during the fall to set conservation targets for all the consuming countries.

6. As regards our short-term strategy vis-a-vis Saudi Arabia there now appears to be no near-term chance of obtaining a Saudi auction or important Saudi increases. Therefore an approach Faisal support to approach the Shah serves no purpose; Simon now agrees. It is possible that the September 12 OPEC meeting now takes decisions detrimental to our interests. If so, that would only hasten the political action you envisage.

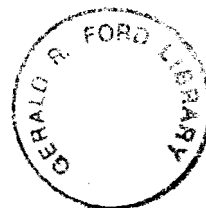
7. The President is tentatively thinking of setting the economic summit on September 27 and 28. You could still meet with the Foreign and Finance Ministers and Central Bankers at Camp David the afternoon of September 28.

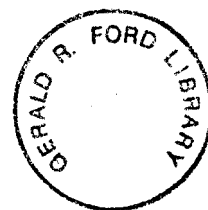
Thomas O. Enders

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Attachments.

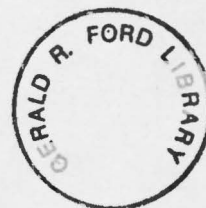
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ORGANIZATION NEEDED TO DEVELOP
U.S. ENERGY POLICY

August 21, 1974



There is a mounting concern among Congress, industry, and the Nation that in the midst of bureaucratic shuffling no single individual below the President is in charge of energy policy. This has severely hampered the development of Project Independence, an effort which touches on so many aspects of our domestic and foreign policies.

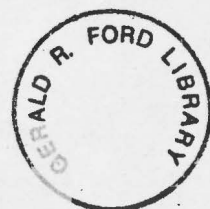
This situation must be corrected immediately by the President making clear who is in charge. This does not mean that one man takes over the responsibility of individual departments or agencies but that the public and the Congress can look at one man to be sure a coordinated approach is being taken.

The optimal solution over the long run is for the establishment of a Department of Energy and Natural Resources -- one strong cabinet level department responsible for the development and implementation of energy and natural resource policy. It is not likely that the Congress will enact legislation to establish such an organization soon, but I would strongly urge that we continue to push for it.

In the interim, it is clear that many departments have different responsibilities and that something must be done to pull these responsibilities together. I would recommend that we submit legislation that would transfer the Federal Energy Administration to the Department of Interior. I would also submit legislation transferring the "non-controversial" functions of our DENR proposal to the Department of Interior.

It may not be possible to obtain Congressional authority to transfer FEA. In any event, it probably couldn't be done until after January 1, 1975. Clearly, Project Independence cannot wait for this to happen and so the best interim step would be to make proper use of the Committee on Energy which is already established.

The only way this Committee will be able to function will be if the President clearly states that it is in charge of energy policy and that its Chairman, Bill Simon, is the Administration leader with respect to Project Independence. The Committee will not assume management responsibility of the individual agencies. The day-to-day operations will continue to be handled by each department or agency.



However, energy issues affect more than one agency and this Committee will be responsible for coordinating the development of energy policy within the Executive Branch. In particular, the Committee will assume the leadership of Project Independence. The Federal Energy Administration will continue to play an important role in the development of Project Independence, but the Committee will see to it that this effort is properly coordinated with our foreign policies as well as other domestic policies. In this way, it will seek to avoid overlapping responsibilities and battles for "turf."

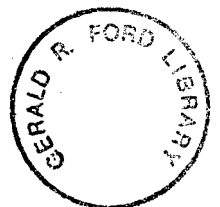
Bill Simon, as Chairman of the Committee, will utilize a small analytical staff in the Treasury to coordinate papers submitted by any member of the Committee. This staff would not duplicate any of the efforts of the various members but would pull together issues for the Chairman and other members of the Committee.

The Executive Secretary of the Committee, who is Assistant Secretary of the Treasury Gerald Parsky, has organized a "Deputies Group" of other Assistant Secretaries. This group will be responsible for reaching inter-agency agreement on issues. This will be particularly important for Project Independence.

A Committee is only as good as its participants want it to be. Again, a Department of Energy and Natural Resources is the ultimate solution but pending passage of such legislation, the leadership is needed and the Committee on Energy will work if the President provides it with the proper impetus.



B



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Urgent New Initiatives in Oil Conservation

1. The only short term weapon we have to lessen our oil vulnerability and to begin shifting the balance of power vis-a-vis the producers is conservation. Without it oil prices will remain high or rise further, and the deterioration of the economic and strategic power of the Western industrialized countries will accelerate.

2. To be effective a new oil conservation drive will mean three things:

- - At home, higher prices for crude and products as a result of removal of price controls, new taxes, tariffs or quotas on imports, or some combination of the four; this is a sine qua non for a successful effort;
- - Internationally, agreement among the main consuming countries now grouped together as the Energy Coordinating Group (Canada, the European Community less France, Norway, Japan, and the U. S.) on a common target for conserving oil, perhaps expressed in terms of a target for limiting net oil imports. We may also wish to consider a group approach to external tariffs or quotas on imported oil.
- - At home and abroad issuance of new conservation guidelines for high energy use sectors of the economy with a particular emphasis on energy intensive industries, combined with regulatory changes to promote savings in the electrical industry, and the transportation industry (trucking, airlines, rail).

3. The President's main options for action at home are:

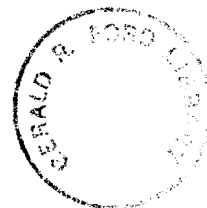
- - Decontrol of prices of old oil. Under existing authority the President can remove price controls on the 60% of domestically produced oil now priced at \$5.25 per barrel. This would possibly raise domestic crude prices by \$5.00 a barrel; it might raise gasoline prices by 3-4 cents a gallon; it might reduce overall consumption of oil and oil products and thus imports. On the other hand, there would be an inflationary impact on the fuel sector; the measure would hit low-income families the most; company windfall profits

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E.O. 12958, Sec. 3.5

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By dal, NARA, Date 12/17/03

SECRET/EYES ONLY

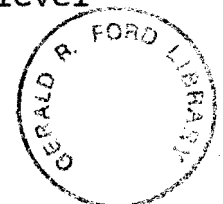


might be increased; political backlash could be substantial.

- - Raise taxes. This could be all on petroleum and petroleum products, on gasoline only; or on gasoline plus heating oil. In order to soften the impact on low-income families, there could be offsetting decreases in income tax liability or Social Security taxes. Treasury is studying a proposal on this. A further alternative would be to decontrol old oil as above, but impose special taxes on old oil in an effort to soak up the difference between the controlled prices and market prices and then rebate some of the revenue to low-income families. ~~The~~ basic question on all of these tax options is of course whether with an election coming up Congress will act quickly or indeed at all. The chances are that it wouldn't.
- - Impose a quota or duty on imported oil. Under Section 232 of the Trade Expansion Act of 1962, in cases of national security the President has authority to impose quotas on duties on imports without additional recourse to Congress. While this system was used to control oil imports in the past; and would be reimposed, we do not at this time recommend a reinstatement of our prior system. We are however reviewing other variants of tariffs and quotas in order to find the best political and technical alternatives. One possibility would be a system of import license fees that would be progressively more expensive the costlier the oil; another would be to auction import licenses.

4. To be effective, international conservation action must involve commitments by the main consuming countries to clear targets, combined with a mechanism for verification. We may also need international cooperation on common tariff or quotas to prevent chiseling.

An appealing target, but one of the toughest, would be a commitment by the ECG countries as a group not to increase their net imports of oil. An operational mechanism to achieve that (i. e. ECG-wide quotas or tariffs) might be difficult to achieve given disparate historical growth rates (Japan is a particular problem). One possible alternative would be for the ECG countries as a whole to limit the growth of oil consumption relative to GNP to half its level over the past ten years.



In order to dramatize the commitment, the ECG countries could meet at high level during the fall to consider and adopt the targets, make individual commitments, and adopt a slate of conservation guidelines to individual industries that would apply throughout the group.

5. Recommendations

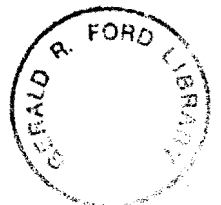
Recognizing that much staff work remains to be done on many of these proposals, we should immediately consider the opportunities for the President launching a new conservation campaign calling for:

- - Announcement in October of simultaneous decisions under Project Independence, including decontrol measures on old oil, imposition of import tariff or quotas, and a request to Congress to legislate tax rebates for low-income families when it reconvenes, either after elections or next January.
- - High level meeting of the ECG countries to make commitments on oil saving and to examine cooperative programs to limit imports.
- - Changes in regulatory practices in the transportation and energy sectors to conserve energy coupled with a program of detailed guidelines and incentives to high energy use sectors of the economy. Possible changes might include peak period use surcharges and the elimination of block rates in the electric industry, and the revisions of regulations, rates, and scheduling in the transportation sector.

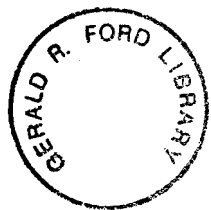
6. Organization

To develop and realize a program of this kind, and to bring Project Independence to the decision point in good time a strong executive lead is needed. The best available vehicle is the Committee on Energy (including the Secretary of the Treasury and grouping the relevant agencies). This Committee should be charged by executive order to develop Project Independence and a full conservation program for Presidential decision in mid-October.

Implementation should be assigned to the relevant Departments, notably Interior. For this purpose it may be desirable to fold FEA into Interior.



C





THE SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM FOR THE PRESIDENT

Recommendation to Increase Gasoline Taxes by
20¢ A Gallon

I recommend that we ask for an increase in Federal gasoline taxes of 20¢ a gallon, which will raise a total of \$16.9 billion. Concurrently, I recommend that we ask that approximately \$7 billion of these funds be returned to lower income groups, primarily through income tax reductions.

This dramatic action would attack inflation by insuring, with planned budget cuts, a surplus in both fiscal 1975 and 1976. Although the published consumer price index would be increased, the action would conserve oil, strengthen our defense against embargos and improve cooperation with oil consuming nations.

The attached Table No. 1 shows estimated revenue yields at different gasoline tax levels.

The gasoline tax is somewhat regressive, but this regressivity would be offset by using part of the revenue yield to lower other taxes. The attached Table No. 2 shows the distribution of tax paid at various income levels.

The present 4¢ per gallon Federal tax on gasoline has prevailed since 1959. That tax is dedicated to the Highway Trust Fund and would remain.

State gasoline taxes have been rising for the past two decades, and twenty-four states have increased their rates since 1969. The average state rate is 7¢ per gallon. The highest rate at the state level is 10¢ and the lowest is 5¢. In Europe and Japan, taxes on gasoline are generally in the 75¢ to \$1.25 per gallon range, and gasoline itself costs from \$1.25 to \$2.00 a gallon. Even with the new tax, U.S. prices will still be significantly lower than foreign prices.



Diesel fuels are not included in this recommendation, although about a \$1 billion would be raised from a parallel 20¢ tax per gallon from business.

In returning revenue to the lower income groups, we could increase the standard deduction, lower tax rates or provide a tax credit. Excise taxes on other commodities and services could be removed. Social security taxes could be reduced or the benefits increased. State welfare programs could be supported by additional block grants. Of these, my recommendation is that we place primary emphasis on income tax reductions.

Inherent in my proposal are two disadvantages. First, some individuals will be more than compensated for their increased gasoline tax by the reductions in their income taxes, and some will not. In particular, it is estimated that approximately \$400 million of the new taxes resulting from a 20¢ a gallon increase in the gasoline tax would be paid by individuals who do not pay income taxes. These individuals, and all others at the lower levels of income, would be greatly benefitted by the impact of the gasoline tax on the budget position. This in turn should reduce the rate of inflation. Inflation itself is a regressive income tax.

Second, the increase in gasoline taxes will directly push up the published cost-of-living price index, and the income tax reductions do not directly affect that index. The gasoline tax will hold down prices in general (through the improved budget position), and in particular will hold down the price of gasoline before tax by reducing the demand for gasoline.

We should face up to these two disadvantages in order to obtain the great benefits which the increase in the gasoline tax will provide in our fight to break the vicious circle of inflation, to encourage conservation and to strengthen our international security.



TABLE I

Estimated Revenue Yields for the Calendar Year 1975
 from Additional Gasoline Taxes at Rates from 5 to 25 Cents
 Per Gallon, Net of Business Tax Deduction

	(\$ billions)				
	<u>5¢/gal.</u>	<u>10¢/gal.</u>	<u>15¢/gal.</u>	<u>20¢/gal.</u>	<u>25¢/gal.</u>
Personal Consumption	\$3.2	\$6.3	\$9.3	\$12.1	\$14.7
Business Consumption	\$1.3	\$2.5	\$3.7	\$4.8	\$ 5.8
TOTAL	\$4.5	\$8.8	\$13.0	\$16.9	\$20.5

Based on estimates assuming that gasoline consumption would be cut by 1 percent for each 5 percent increase in the price paid by users. These estimates are similar to those presented to the American Economic Association meetings in New York, December, 1974, by Houthakker and Verlager.



TABLE II

Distribution by Adjusted Gross Income Classes of Proposed 20¢/Gal. Additional Gasoline Tax; Further Divided between Those Who Pay Income Tax and Those Who Do Not

Adjusted Gross Income (\$ Thousands)	Additional Tax Paid		
	Total (\$ Bill.)	Income Taxpayers (\$ Bill.)	Not Income Taxpayers (\$ Bill.)
0-3	0.5	0.2	0.3
3-5	0.6	0.5	0.1
5-7	1.1	1.1	-
7-10	1.8	1.8	-
10-15	2.9	2.9	-
15-20	2.4	2.4	-
20-50	2.5	2.5	-
50-100	0.2	0.2	-
100 +	*	*	-
Totals	12.0	11.6	0.4

*Less than \$50 million



CONGRESSIONAL
ITEMS



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CONGRESSIONAL ITEMS

The Case Amendment
to the
State Department Authorization Bill
(S. 3473)

CURRENT STATUS

We have no money problems with our Authorization Bill in the Senate; however, the bill is laden with "political amendments." The most important of these is the Case Amendment that would require you to submit any major military base agreement--i.e., one involving over 500 men--as a treaty, or for approval by law.

The House has passed a clean bill without problem amendments and the bill is expected to go to conference shortly. Unless the Executive Branch can provide Wayne Hays, who will in effect lead the House conference group, with compromise or alternative language which can realistically be expected to be of interest to the Senate conferees, we believe the conference will accept the Case language. Under these circumstances our efforts to delete this provision would depend upon a ruling in the House that the Case Amendment, contained in the bill as it originated in the Senate, is non-germane.

ISSUES AND CHOICES

- We would be spared the Case Amendment if the germaneness rule applies. This action by the House might not be acceptable by the Senate, however, in which case we might not have a State Department Authorization Bill.
- If it appears that this tack will not be successful, there are several compromises that we could attempt; I will have to go into these with you in detail if the need arises.

DECLASSIFIED

E.O. 12958, Sec. 3.5

State Dept. Guidelines

By dal, NARA, Date 12/17/03

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In the Senate, the Exim Bill will go to the floor the week of September 16. The Committee bill has an objectionable review procedure which would permit Congressional veto of any loans over \$50 million, worldwide. This procedure is sufficiently cumbersome to discourage foreign purchasers of American equipment and, even though it is directed primarily at the Soviet Union, the Bank feels that it would be unmanageable. Consideration is still being given to amend this section on the floor of the Senate. The House bill manager, Congressman Ashley, assures us, however, that the House will insist on its version of the review procedure (all loans over \$50 million to Communist countries shall lie before the two Committees for 30 days - no veto provision) in conference, and that there is no danger, in his judgment, that the Senate version will be adopted. There will be other Senate initiatives directed against Bank activities with the Soviet Union on the floor of the Senate, but at this point, the bill's managers are reasonably confident they can resist such amendments. Final action on the ExIm legislation is possible before the mid-October recess.

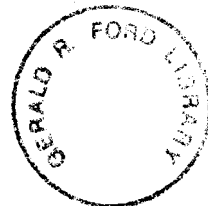
Military Aid to Turkey

CURRENT STATUS

Resolutions have been offered in both the House and Senate to cut off all US military assistance to Turkey until an agreement is reached among Turkey, Greece and Cyprus on the future status of the island.

We expect strong efforts to be made in both houses to terminate US military assistance to Turkey. The Turkish intervention on Cyprus, coming on the heels of their decision to resume the growth of poppies, has created a highly unfavorable climate in the Congress toward continued US aid to Turkey of any kind. The announcement of the Department's position on the legality of continuing US military assistance to Turkey will only partially meet Congressional opposition to future US aid to that country. We expect Congressman Rosenthal and the five Greek-American Members of the House, plus Senators Pell, Abourezk and Eagleton to continue their efforts to cut off military aid to Turkey, whatever the Department's position on the legal question.

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- If the Case Amendment should stay in the bill in substantially its present form, I believe you should veto the Authorization Bill. The amendment is an unacceptable intrusion on your constitutional authority in the field of foreign affairs and would place major burdens on our relations with a number of countries. I believe your veto would be sustained.

- Lacking an Authorization Bill we could operate under a continuing resolution but this would have serious impact on our activities. I believe, however, that after a sustained veto of the Appropriations Bill we would be able to get a new Authorization Bill passed fairly soon so that the damage to our financial situation would only be temporary.

Export-Import Bank

The House has passed authorization legislation for the Export-Import Bank which we find satisfactory. There are two particular political amendments worth noting: the Koch Amendment prohibits the Bank from concluding any transactions with the Soviet Union until the Senate has acted upon, and you have signed, the Trade Bill. This is designed to ensure that the Jackson-Vanik Amendment is resolved before the Bank resumes business with Moscow. Since we expect the Trade Bill and Jackson-Vanik to be resolved shortly, this will not create any problems.

Secondly the Rinaldo Amendment would require you to certify that the Government of Turkey is cooperating in dealing with safeguards on poppy production (see following item).

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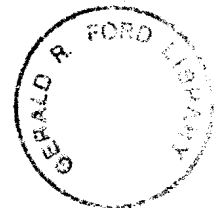
ISSUES AND CHOICES

- If it is possible to increase dramatically US humanitarian relief assistance to Cyprus, we may be able to diminish some of the anti-Turkish sentiments in the Congress.
- If we continue to make clear our support for the Karamanlis Government, this may satisfy those Greek supporters at the Capitol who feel we have favored Turkey in our policy.
- If we are in a position to state that Turkey is committed to the maintenance of the ceasefire on Cyprus, and to an eventual withdrawal of her troops from the island, we should be able to soften the demand for an outright termination of military aid to Turkey.

US-Turkish Relations - Poppies

Although we are being buffeted heavily by certain Members of the Congress on the legality of our continuing military assistance to Turkey, the picture has brightened considerably on the poppy question. The decision by the Turkish government to require the "strawing" of the entire poppy harvest (which renders in such a way that heroin cannot be produced from it) and outlawing of lancing should be decisive in terms of allaying Congressional criticism. This Turkish decision should make it a simple matter for you to certify that the Turks are cooperating, as required in the Rinaldo amendment to the House ExIm Bank legislation. It should blunt interest in the Mondale amendment in the Senate, and in efforts by Congressman Lester Wolff and others to tie up aid programs in Turkey because of the poppy problem.

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Byrd Amendment - Rhodesian Chrome

CURRENT STATUS

The bill to repeal the Byrd Amendment, which permits the importation of Rhodesian Chrome in violation of the United Nations embargo, has passed the Senate and will be scheduled for floor action in the House sometime after the Congress returns from the election recess on November 12. The Administration will have to play an active role with members if it hopes to assure House passage. Thus far, the Byrd Repeal forces can count on only 35 hard Republican votes; prospects for getting the necessary votes for passage are clearly better after the election.

Defeat of this bill will adversely affect US-African relationships and undermine our position in the United Nations.

ISSUES AND CHOICES

- We intend to coordinate our efforts with those of the White House in seeking the necessary votes for passage of the Repeal Bill.
- Nevertheless, if after Administration intervention and our own renewed efforts, victory seems unlikely in the House we shall recommend against floor action in this Congress.

Cargo Preference Bill

CURRENT STATUS

This legislation, which would require that 20% of all petroleum and petroleum products imported into the United States be carried on US flag vessels, passed the House on May 8; a Senate version was passed September 5 and the bill will be considered in conference, probably toward the end of the week of September 16. Senator Magnuson and Senator Long are the principal proponents of this legislation in the Senate as well as being two of the Senate conferees. Mrs. Sullivan is the chief proponent in the House.

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The Cargo Preference Bill would not only be a comparatively ineffective means of promoting the US merchant marine, but it would also have an adverse effect on our international relations and would isolate more than 30 friendship, commerce and navigation treaties to which we are signatories.

Considering the heavy vote in favor of this legislation in both houses, we stand little chance of obtaining any significant concessions in conference unless you are prepared to sign a veto.

ISSUES AND CHOICES

- This bill could provoke a rash of similar protective measures among GATT countries.
- An approach to Magnuson, Long and Mrs. Sullivan offers the best hope of obtaining concessions in conference.
- If passed in substantially its present form, I believe you should consider vetoing the bill.

The Emergency Marine Fisheries
Protection Act of 1974

CURRENT STATUS

This legislation, better known as the "200-Mile Fisheries Bill", was favorably reported by the Senate Commerce Committee on August 8 and considered on September 5 by the Senate Foreign Relations Committee which will report it by September 17; at this date indications are that the Committee will report unfavorably.

Floor action on the bill, which can be expected before recess, will be another matter. Senator Magnuson, with strong support from Senators Pell, Muskie, Gravel, and Stevens, as well as most coastal state Senators, will press for an early vote.

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In the House, the Subcommittee on Fisheries and Wildlife Conservation of the Merchant Marine Committee has conducted "field hearings" in different parts of the country on similar legislation. Hearings in Washington are tentatively scheduled for the week of September 23.

ISSUES AND CHOICES

- This legislation would unilaterally establish a 200-mile fishing zone for management jurisdiction until a general international agreement on fishery jurisdiction is achieved.
- Passage of this bill might well stimulate other coastal states to take unilateral action that would be seriously damaging to overall US ocean interests, including important security and energy needs. It would seriously weaken our negotiating position at the Law of the Sea Conference.
- Every effort should be made to delay favorable consideration of this legislation in this session of Congress. Interim measures for relief of the fishing industry should be considered and a Presidential veto should be weighed against the damage passage would do to our foreign policy.

War Claims Act -- Increase in Benefits
for Civilian POWs

CURRENT STATUS

On October 8, 1973, the Senate passed S.1728, a bill strongly supported by this Department and the Administration, which would increase detention benefits for civilian POWs in Indochina under the War Claims Act to \$150 per month - equivalent to the benefit provided for military POWs. The bill, as approved by the House on August 12 this year, contains a second section pertaining to an unrelated aspect of the War Claims Act:

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the priority of commercial and private claims as compared with other claims relating to World War II. The bill should go to conference shortly.

ISSUES AND CHOICES

- We believe that it is unfair to our civilian POWs, regardless of the merits of the section added in the House, to defer the increase in detention benefits for civilian POWs, approved by both houses, because of differences over the unrelated issue inserted in the House.

- We anticipate a resolution of these differences in conference, but if it appears that passage in this session is threatened, I will seek assistance.

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