Vetoed 3/4/75
H. Ref. to Ways + Means Comte
3/11/75

94th Congress
1st Session

A B I L L

To amend the Emergency Petroleum Allocation Act of 1973 to provide for a temporary freeze on the national average price of domestic crude oil, residual fuel oil, and refined petroleum products, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Section 1. Section 4 of the Emergency Petroleum Allocation Act of 1973 is amended by adding at the end thereof the following new subsection:

"(h) During the 90-day period which begins on the date of enactment of this subsection, the President may not prescribe any amendment to the regulation under subsection (a), or allow any amendment to such regulation prescribed after January 1, 1975, to remain in effect, if any such amendment has the effect of permitting the national average price of domestic crude oil or any classification thereof, residual fuel oil, or any refined petroleum product to increase above the national average price of domestic crude oil or classification thereof, residual fuel oil, or any refined petroleum product measured on January 1, 1975. Any proposed amendment prescribed after the expiration of such 90-day period which would have the effect of permitting the national average price of domestic crude oil or any classification thereof, residual fuel oil, or any refined petroleum product to increase above the national average price of domestic crude oil or any classification thereof, residual fuel oil, or any refined petroleum product measured on January 1, 1975, shall be deemed an exemption for purposes of subsection (g)(2) of this section and may not take effect except in accordance with the provisions of such subsection.".

Sec. 2. Section 4(g)(2) of the Emergency Petroleum Allocation Act of 1973 is amended to read as follows:

"(2)(A) Subject to the provisions of this paragraph, the President may prescribe an amendment to the regulation under subsection (a) exempting crude oil, residual fuel oil, or any refined petroleum product from the requirement of such regulation as they pertain to either (A) the allocation of any such oil or product, or (B) the specification of price or the manner for determining price of any such oil or product; or both. The President shall support any such proposed amendment to the regulation under subsection (a) in the case of (A) the proposed exemption of an oil or product, with a finding that such oil or product is no longer in short supply and that exempting such oil or product will not have an adverse impact on the supply of any other oil or product subject to this Act, and (B) any proposed exemption of an oil or product from the pricing provisions of such regulation, with a finding that such exemption is consistent with the attainment of the objectives of subsection (b) and specifically that competition and market forces are adequate to protect industrial and individual consumers from price gouging and to assure that prices of such oil or product will be just and reasonable.

"(B) The President shall transmit (i) any amendment to the regulation prescribed under subparagraph (A) of this paragraph, (ii) the findings required by such subparagraph, and (iii) the evaluation specified in subparagraph (D) of this paragraph, to both Houses of Congress on the same day and to each House while it is in session. Such an amendment may apply only to one oil or one product with respect to either allocation or price.

"(C) Such amendment shall take effect at the end of the first period of 15 calendar days of continuous session of Congress after the date on which such amendment is transmitted to it unless, between the date of transmittal and the end of the 15-day period, either House passes a resolution, pursuant to the procedures and provisions specified in section 906(b) and sections 908 through 913 of title 5, United States Code, stating in substance that that House does not favor such amendment.

"(D) To the greatest extent practicable, any amendment which the President transmits to the Congress pursuant to subparagraph (B) of this paragraph shall be accompanied by an evaluation prepared by the President of the potential economic impacts, if any, of the proposed plan and shall include an analysis of the effect of such plan on--

"(i) the fiscal integrity of State and local government;

"(ii) vital industrial sectors of the economy;

"(iii) employment, by industrial and trade sector, as well as on a national, regional, State, and local basis;

"(iv) the economic vitality of regional, State, and local areas;

"(v) the availability and price of consumer goods and services;

"(vi) the gross national product;

"(vii) competition in all sectors of industry;

"(viii) small business; and

"(ix) the supply and availability of energy resources for use as fuel or as feedstock for industry."

VIII. INDIVIDUAL VIEWS OF MR. ROSTENKOWSKI EIGHTH DISTRICT OF ILLINOIS

As an original sponsor of this legislation, it is with some reluctance that I now find it necessary to take exception with my colleagues on some of the issues raised in reporting it to the full House of Representatives for consideration.

In cosponsoring H.R. 1767, I felt that the President's plan to increase import fees on crude oil would impose tremendous economic hardships on many American families without producing a significant decrease in the level of crude oil imports. The increased fee would not create the economic disincentive necessary to force most consumers to alter their present purchasing habits. Probably, the only product whose price would increase by the level necessary to force consumers to look for a less expensive alternative would be home heating oil that is distilled from foreign crude. But, as has been consistently pointed out by my colleagues from New England, there is presently no alternative to this home heating oil for those consumers who must rely on imported supplies.

My support for H.R. 1767 was based on the premise that if the government wants to impose economic disincentives to discourage the use of petroleum in general, and imported petroleum in particular, this must be done in a way that will force consumers to alter their spending patterns on products for which the demand is somewhat flexible. I felt that the President's increased import fee was not the economic incentive that would accomplish this. Rather, it is necessary to take steps to directly curtail the use of gasoline, the one oil-based product in this country in which significant consumption curtailment can be achieved without massive economic disruption. This can only be accomplished through the use of strong disincentives—disincentives that do precisely that— encourage people not to use the product.

While I personally favor a strong *economic* disincentive, perhaps a steep fuel tax with an annual rebate to all drivers (equal to the tax paid on the first 10,000 miles driven), I could support any alternative that would effectively eliminate wasteful gasoline consumption and, as a result, decrease the need for crude oil imports.

During the consideration of H.R. 1767 before the Committee however, very little time was devoted to the discussion of the effectiveness of the President's proposed energy program. Rather, almost all attention was focused on the President's "orchestrated" compliance with the requirements of Section 232 of the Trade Expansion Act, as amended, and the resulting use of this Executive power as a lever to force Congress to act on the rest of the Administration's program. There is little doubt in my mind that a concerted effort was made within the Administration to document the justification necessary to exercise this Presidential power under the Trade Expansion Act. But it must be remembered that while individual Members of Congress might not have found that the present level of imports was sufficient to "threaten to impair the national security", that is not what is required under the law.

Under Section 232, as amended, the Secretary of the Treasury is required to make an investigation, during which he shall consult with the Secretary of Defense and other appropriate officers of the United States. While public hearings are recommended, they can be and were waived in the present case. After reviewing the testimony of Secretary Simon, I have no doubt that his office did all that was necessary to comply with the requirements of the law.

While the law is clear in what it requires in the form of an investigation, it leaves to the Administration, the discretion to make what it feels to be the appropriate decision after evaluating the results of a Section 232 investigation. As a result, the Administration's careful adherence to these procedures, forces me to differ with those of my colleagues on the Committee who feel that the President's action violated the language of the Trade Expansion Act as amended by the Trade Act of 1974.

A second point that was overly stressed during our deliberations was the sentiment expressed by many on the Committee that the President was using his authority to increase import fees as an unfair lever on the Congress. While the fee undoubtedly was being used to apply pressure, I cannot agree that the President's use of this was either illegal or unfair. In fact, I cannot think of any instance in recent history where any President has not used every legal means at his disposal to encourage the Congress to assist him in the development of key programs.

The President's imposition of an import fee to force Congressional consideration of the remainder of his economic-energy package is no more unfair than Congressional use of the debt-ceiling to force the President to accept a Congressional proposal to which he is opposed—in this case, a suspension of his power to impose fees. In my ten years on the Ways and Means Committee, I have traditionally opposed the use of the debt ceiling in this manner, as an unjustified parliamentary maneuver designed to avoid the direct consideration of legislation that would be better considered on its own merits. For this reason, I opposed in Committee the amendment which attached the debt ceiling increase to H.R. 1767.

In conclusion, I believe that if we in the Congress are going to oppose the President's program at this most critical time, we should oppose it only if we are able to substitute a positive program of our own. We should not spend hours searching for a mere technicality to block his action, or days complaining how unfair it is for him to take the initiative, using every discretionary tool available to him.

As the House of Representatves debates H.R. 1767, I hope that my colleagues will evaluate not only the short-term effect of suspending the President's power to impose import fees, but also that they will remember that such a rejection of his program commits us to offering a concrete alternative and to offering it within 90 days. We have too long argued just issues, it is time for us to act.

DAN ROSTENKOWSKI.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

JAN 14 1975

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Report on Section 232 Investigation on Petroleum Imports

This report is submitted to you pursuant to Section 232 of the Trade Expansion Act of 1962, as amended, and results from an investigation that I initiated under that Section for the purpose of determining whether petroleum* is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

At the present time, the demand for petroleum in the United States is 18.7 million barrels per day. Of this amount, imports provide 7.4 million barrels daily. The deficit in petroleum production compared with demand has grown since 1966, when the United States ceased to be self-sufficient.

Our increasing dependence upon foreign petroleum had, by 1973, created a potential problem to our economic welfare in the event that supplies from foreign sources were interrupted. Its adverse contribution to our balance of payments position had also significantly increased, and for the year 1973 the outflow in payments for the purchase of foreign petroleum was running at $8.3 billion annually, only partially offset by exports of petroleum products.

In September 1973, the worsening petroleum import situation was further seriously aggravated by an embargo on crude oil imposed by the Organization of Petroleum Exporting Countries, which effectively kept 2.4 million needed barrels of oil per day from U. S. shores. After the initiation of the embargo, the price of imported oil quadrupled from approximately $2.50 per barrel to approximately $10.00 per barrel and has since that time risen somewhat further. Simultaneously, the balance of payments

*The term "petroleum", as used in this report, means crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar.

problem deteriorated by reason of the increased oil bill paid by United States consuming interests. Today the outflow of payments for petroleum is running at a rate of $25 billion annually.

As a result of my investigation, I conclude that the petroleum consumption in the United States could be reduced by conserving approximately one million barrels per day without substantially adversely affecting the level of economic activity in the United States. Any sudden supply interruption in excess of this amount, however, and particularly a recurrence of the 2.4 million barrel per day reduction which occurred during the OPEC embargo, would have a prompt substantial impact upon our economic well-being, and, considering the close relation between this nation's economic welfare and our national security, would clearly threaten to impair our national security.

Furthermore, in the event of a world-wide political or military crisis, it is not improbable that a more complete interruption of the flow of imported petroleum would occur. In that event, the total U. S. production of about 11 million barrels per day might well be insufficient to supply adequately a war-time economy, even after mandatory conservation measures are imposed. As a result, the national security would not merely be threatened, but could be immediately, directly and adversely affected.

In addition, the price at which oil imports are now purchased causes a massive payments outflow to other countries. The inevitable result of such an outflow is to reduce the flexibility and viability of our foreign policy objectives. For this reason, therefore, a payments outflow poses a more intangible, but just as real, threat to the security of the United States as the threat of petroleum supply interruption. On both grounds, decisive action is essential.

FINDINGS

As a result of my investigation, I have found that crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar are being imported into the United States in such quantities as to threaten to impair the national security. I further find that the foregoing products are being imported into the United States under such circumstances as to threaten to impair the national security.

RECOMMENDATIONS

I therefore recommend that appropriate action be taken to reduce imports of crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar into the United States, to promote a lessened reliance upon such imports, to reduce the payments outflow and to create incentives for the use of alternative sources of energy to such imports. I understand that a Presidential Proclamation pursuant to Section 232 of the Trade Expansion Act of 1962 is being drafted by the Federal Energy Administration consistent with these recommendations.

(Signed) William E. Simon

William E. Simon

DEPARTMENT OF THE TREASURY

REPORT OF INVESTIGATION OF EFFECT OF PETROLEUM IMPORTS AND PETROLEUM PRODUCTS ON THE NATIONAL SECURITY PURSUANT TO SECTION 232 OF THE TRADE EXPANSION ACT, AS AMENDED

By

The Assistant Secretary of the Treasury
for Enforcement, Operations and Tariff Affairs,
David R. Macdonald

January 13, 1975

REPORT OF INVESTIGATION UNDER SECTION 232 OF THE TRADE EXPANSION ACT, AS AMENDED, 19 U.S.C. 1862

I. INTRODUCTION AND SUMMARY

This investigation is being conducted at the request of and on behalf of the Secretary of the Treasury pursuant to his authority under Section 232 of the Trade Expansion Act (the "Act"), as amended, 19 U.S.C. 1862. (Annex A) The purpose of the investigation is to determine whether crude oil, crude oil derivatives and products, and related products derived from natural gas and coal tar are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security. Under 31 CFR 9.3, the Assistant Secretary of the Treasury for Enforcement, Operations, and Tariff Affairs is responsible for making this investigation.

The Secretary of the Treasury has determined pursuant to Section 232 that it would be inappropriate to hold public hearings, or otherwise afford interested parties an opportunity to present information and advice relevant to this investigation. He has also determined pursuant to his authority under 31 CFR 9.8 that national security interests require that the procedures providing for public notice and opportunity for public comment set forth at 31 CFR Part 9 not be followed in this case. (Annex A)

In conducting the investigation, information and advice have been sought from the Secretary of Defense, the Secretary of Commerce, and other appropriate officers of the United States to determine the effects on the national security of imports of the articles which are the subject of the investigation. Information and advice have been received from the Departments of State, Defense, Interior, Commerce, Labor, the Council of Economic Advisers, and the Federal Energy Administration. (Annex B)

In summary, the conclusion of this report is that petroleum is being imported in such quantities and under such circumstances as to threaten to impair the national security of this country.

Petroleum is a unique commodity: it is essential to almost every sector of our economy, either as a raw material component or as the fuel for processing or transporting goods. It is thus essential to the maintenance of our gross national product and overall economic health. Only a small percentage of present U. S. petroleum imports could be deemed to be secure from interruption in the event of a major world crisis. The quantity of petroleum imports, moreover, is now such a high percentage of total U. S. consumption that an interruption larger than one million barrels per day at the present time would adversely affect our economy. If our imports not presently deemed to be secure from interruption were in fact kept from our shores, the effect on the U. S. economy would be staggering and would clearly reach beyond a matter of inconvenience, or loss of raw materials and fuel for industries not essential to our national security. The outflow in payments for petroleum also poses a clear threat not only to our wellbeing, but to the welfare of our allies. As the State Department has concluded, the massive transfer of wealth greatly enhances the economic and political power of oil rich states who do not necessarily share our foreign policy objectives, and correspondingly tends to erode the political power of the United States and its allies.

The purpose of this investigation under Section 232 of the Act is to determine the effects of our level of imported petroleum upon our national security and not to fashion a remedy. Nevertheless, it would appear that we must, over the longer term, wean ourselves away from a dependence upon imported oil, conserve our use of petroleum, promote the use of alternative sources of energy, and at least in part, stanch the outflow of payments resulting from our purchases of this commodity. As Secretary Kissinger states:

> "Clearly, decisive action is essential. We have signalled our intention to move toward energy self-sufficiency. We must now demonstrate with action the strength of our commitment. In the short-term, our only viable economic policy option is an effective program of energy conservation. A vigorous United States lead on conservation will encourage similar action by other consuming nations. Consumer cooperation on conservation now and then development of new supplies over time will deter producer aggressiveness by demonstrating that consumers are capable of acting together to defend their interests."

II. STATUTORY CONSIDERATIONS

This investigation has proceeded in recognition of the close relationship of the economic welfare of the Nation to our national security. As required by Section 232, consideration has been given to domestic production of crude oil and the other products under investigation needed for projected defense requirements, the existing and anticipated availability of these raw materials and products which are essential to the national defense, the requirements of the growth of the domestic petroleum industry and supplies of crude oil and crude oil products, and the importation of goods in terms of their quantities, availabilities, character and use as those affect the domestic petroleum industry and the ability of the United States to meet its national security requirements.

In addition, other relevant factors required or permitted by Section 232 have been considered, including the amount of current domestic demand for petroleum and petroleum products which is being supplied from foreign sources, the degree of risk of interruption of the supply of such products from these countries, the impact on the economy and our national defense of an interruption of such supplies including the effects on labor, and the effect of the prices charged for foreign petroleum and petroleum products on our national security.

III. IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS

During the first eight months of 1974, the United States imported approximately 5.8 million barrels per day of petroleum and petroleum products. (Annex C) This figure amounted to 35.6 percent of total United States demand for such products during this period. The latest data available indicates that United States dependence on imported oil is growing. For the four weeks ending December 13, 1974, the United States imported about 7.4 million barrels per day of petroleum and petroleum products, which represented 39.5 percent of total United States demand for such products during the same period. (Annex C)

Imports into the United States may be divided into two major sources, the nations belonging to the Organization of Petroleum Exporting Countries (OPEC) and other nations. (Annex D) The OPEC nations have far more production capacity than the non-OPEC nations. Of the world's total production of approximately 55 million barrels per day, OPEC members produce 30 million barrels, Communist countries 11 million and the balance of 14 million barrels per day is produced by other countries including the U. S. 1/ Moreover, the OPEC countries have over 8 million barrels per day of production potential which is not being utilized while virtually no unused capacity exists in the rest of the world. 2/

Most recent indicators show that 3.5 million barrels per day of crude oil and petroleum products are being imported by the U. S. directly from the OPEC member states. (Annex D) In addition, as much as 850,000 barrels per day of finished products imported into the U. S. from third country sources may originate from OPEC nations. 3/ In total, 4.35 million barrels per day of the 1974 U. S. demand of approximately 17.0 million barrels per day came from OPEC sources. In percentage terms, U. S. imports from OPEC members account for over 25% of domestic demand.

The major Western Hemisphere suppliers of petroleum to the United States are Canada and Venezuela. The latter country provided the United States with approximately 1.1 million barrels per day from January through October 1974. For the same period, Canada exported to the U. S. over 1,000,000 barrels per day or slightly over 17% of our imported supplies.

The Canadian Government has recently conducted a study of its own energy potential. It concluded that steps should be taken to reduce exports of oil with a view to conserving petroleum for future Canadian requirements. 4/ Accordingly, on November 22, 1974, the Canadian Government announced its intention to limit exports to the U. S. to 650,000 barrels per day by the end of 1975. Further reductions in exports will take place after annual reviews. As a result, it appears that the U. S. can no longer count on the availability of large volumes of oil from Canada but may have to increase our reliance on OPEC to make up for the reduction of Canadian imports.

In summary, 60 percent of current imports of crude oil comes directly from OPEC members and another 15 percent is refined by third countries using OPEC crude oil. At least 85% of the imported petroleum, however, whether from OPEC or non-OPEC countries, appears to be subject to the threat of interruption in the event of a crisis. Moreover, the outlook in the short run is for the percentage of imports derived from OPEC members to increase as a result of limitations on Canadian exports.

IV. EFFECT OF 1973-1974 EMBARGO ON THE DOMESTIC ECONOMY

The interruption of the supply of a major part of U. S. imports of petroleum during the Winter of 1973-74 had a serious adverse impact on the economy of the United States.

In his memorandum, Secretary Dent stated:

> "The experience of the Arab oil embargo last year, even though it halted only about one-half of our oil imports, confirms the risk of disruption to the economy which is implicit in dependence on imports of oil to this degree. The oil embargo is believed to have produced a reduction in U. S. GNP by some $10 to 20 billion. All sectors of the economy were adversely affected, with the consumer durables sector and housing construction most heavily hit. Further, it is estimated that a substantial part of the inflationary rise of prices during 1974, particularly in the first half, is attributable to the direct and indirect effects of the rise in overall energy costs which followed the rapid escalation of costs for Arab oil. In view of this record of injury caused by loss of foreign oil supply and our continuing vulnerability to future injury of even greater impact, it is my opinion that imports at current and projected levels do constitute a threat to impair the national security."

The Federal Energy Administration noted in its Project Independence report that the embargo's impact was serious as a result of the nation's high level of dependence upon foreign petroleum imports. In the years 1960 through 1973 U. S. production did not keep pace with U. S. consumption of petroleum. The resulting gap represented the level of U. S. imports, which increased drastically:

U. S. Production and Consumption of Petroleum 1/
(1960-73)
Petroleum (Millions Barrels/Day)

Year	Production	Consumption	Gap (Imports)
1960	8.0	9.5	1.5
1965	8.8	10.8	2.0
1970	11.3	14.7	3.4
1972	11.2	16.4	5.2
1973	10.9	17.3	6.4

The impact of the embargo on imports can be shown by a comparison of import figures for both crude and refined oil imports for each of the months September 1973 through February 1974, and the percent change reflected in such figures from the same months of the preceding year:

Monthly Imports
Before and During the Oil Embargo 2/
(Millions Barrels/Day)

	Crude Oil	% Change from Previous Year	Total Refined Products	% Change from Previous Year
Sept 1973	3.47	+47	2.65	+26
Oct	3.86	+49	2.67	+ 9
Nov	3.45	+50	3.14	+30
Dec	3.99	+45	2.90	+ 1
Jan 1974	2.46	-13	2.85	- 4
Feb	2.10	-22	2.55	+17*

*The indicated positive balance in this month is reflected by the disproportionately large imports of motor gasoline, to accomodate critical shortages of this refined product.

Both the National Petroleum Council and the Federal Energy Administration have made detailed analyses of the impact of the 1973-74 embargo. A demand reduction of over 1 million barrels per day has been attributed to curtailment and conservation. These savings occurred in areas which caused minimum individual or collective hardship. However, many such savings were the result of one-time only reductions in usage patterns, such as lowering of thermostat levels. Once accomplished, by voluntary or other restraints upon energy usage, such savings cannot thereafter be duplicated.

The cost of the embargo to the economy, in terms of both increased energy costs and adverse impacts on the labor market, was severe. During the first quarter of 1974, the seasonally adjusted Gross National Product fell by 7% and the seasonally adjusted unemployment rate changed from 4.6% in October 1973 to 5.1% by March of 1974. Of course there were other factors at work in the economy during this period and it is difficult to isolate those declines attributable solely to the embargo. However, according to the FEA, increased energy prices during the embargo period were responsible for at least 30% of the increase in the Consumer Price Index with the long-term effects of the embargo and the subsequent price rises continuing after the embargo was lifted. As the FEA has pointed out, a comparison of the nation's economic performance for the two years preceding the embargo with the first quarter of 1974 demonstrates a clear and uninterrupted upward historical trend (albeit a reduced rate of increase beginning in the second quarter of 1973) followed by a sudden sharp decline during the relevant period:

Gross National Product Statistics 3/
(1972-1974)

		Real GNP a/	Present Changes in GNP from Preceding Quarter (Annual Rate)
1972 -	I	768.0	
	II	785.6	9.5
	III	796.7	5.7
	IV	812.3	8.0
1973 -	I	829.3	8.6
	II	834.3	2.4
	III	841.3	3.4
	IV	844.6	1.6
1974 -	I	831.0	-6.3

a/ Seasonally adjusted at annual rates in billions of 1958 dollars.

A similar effect has been identified by FEA with respect to real personal consumption expenditures and real fixed investments. These are set forth in detail in the Appendix to the Project Independence Report, and are not set forth in detail herein.

The Department of Commerce has forecast a decline in real output for the first quarter of 1975 of $10.4 billion, projected to increase to $15 billion by the second quarter 1975.4/ Again, studies showing detailed effects upon the labor market and contributions to changes for selected items within the CPI have been analyzed in detail by the Department of Commerce and the Federal Energy Administration, and set forth in the Project Independence Report.

The adverse change of .5% in the seasonally adjusted national unemployment rate between October 1973 and March 1974 represents an increase of approximately 500,000 unemployed people. The Department of Labor has estimated that during the period of embargo 150,000 to 225,000 jobs were lost as a direct result of employers' inability to acquire petroleum supplies. An additional decline of approximately 310,000 jobs occurred as an indirect result of such shortages in industries whose products or processes were subject to reduced demand as a result thereof (most notably, the automobile industry). The Department of Labor estimates that 85% of the total jobs lost were those of semi-skilled workers, 5% clerical and 3% professional, technical and skilled.5/

The Federal Energy Administration has projected the loss in economic activity (GNP) which could be reasonably correlated to a shortfall in oil supplies. The pattern of this correlation indicates that at any given time, the economy can absorb a modest reduction in consumption before painful reductions in economic activity occur. After this reduction in nonessential uses of oil is made, further reductions of oil supplies will result in sharply increasing losses in the GNP. Based on such models, the FEA has determined the impacts of interruption of imports under several conditions. For example, a recently calculated situation shows that a 2.2 million bbl/day import reduction for six months' duration is estimated to cause a $22.4 billion reduction in GNP.6/

The Federal Energy Administration estimates that a reduction in consumption of approximately 1 million barrels per day can be managed without imposing prohibitive costs on the economy. While recognizing that a figure of 1 million barrels per day is not precise, it does approximate a reasonable estimate of the short-term reduction beyond which more severe economic readjustments would take place. Of the 17 million barrels per day current demand, it is estimated that 16 million is the proximate quantity required to prevent progressive deterioration of the economy at the present time.

It should also be noted that the impacts of any supply interruptions will be disproportionately felt in the various regions of the country. The major determinants of the impact within any given region is the amount of imports into that region, climatic conditions of the region, and the industries located there. The northwestern and northeastern parts of the country import large amounts of their petroleum requirements, the climatic conditions require them to use more energy for heating than other regions, and they have more energy using manufacturing industries in general than other parts of the country (this is especially true of the Northeast).

The direct effects of an embargo would be concentrated in PAD (Petroleum Administration for Defense) Districts 1 and 5. PAD District 1 includes the Eastern Seaboard of the U. S. where it is estimated that 83 percent of the 1975 crude petroleum demand will be imported. In PAD District 5, the West Coast of the U. S. including Alaska and Hawaii, imports are 43 percent of total uses. The East Coast problem is especially difficult because of the high fuel oil demands in the New England area and the fact that approximately 98 percent of the residual fuel oil for PAD District 1 is imported as a refined product or made from imported crude.7/

V. VULNERABILITY OF U. S. ECONOMY TO OIL AND DEVELOPMENT OF ALTERNATE ENERGY SOURCES

The vulnerability of the U. S. economy to petroleum supply interruptions is highlighted by (1) the fact that it is the backbone, not only of our defense energy needs, but also of our economic welfare, and (2) the difficulty of bringing in alternate energy sources immediately.

Although there may have been some recent minor changes, the 1973 figures show that petroleum accounted for 46 percent of domestic energy consumption, natural gas for 31 percent, coal for 18 percent, hydropower for 4 percent and nuclear for 1 percent. (Annex E)

The degree to which other energy forms can in the short run be physically substituted for oil is limited. Residual oil used in heating or utilities can be replaced with coal only after conversion of the plant's combustion facilities has taken place. Other energy sources are limited in supply or feasibility of use. Supplies of natural gas are declining and an interstate pipeline curtailment of 919 billion cu. ft. is expected in the 1974-75 heating season. 1/ The natural gas reserve/production ratio has declined from 21.1 in 1959 to 11.1 in 1973, 2/ indicating the production potential is seriously impaired. It does not appear that we can substitute natural gas for oil. On the contrary, the prospects are that either oil or coal may have to be substituted for natural gas. The nation's ability to increase its hydroelectric power generating capacity is severely limited. Other energy sources such as nuclear electrical generating power require long lead times for development and will not be available in materially increased quantities for a number of years. For example, nuclear power is not expected to reach a significant percentage (12%) of our total energy capacity until 1985. 3/ The availability of coal is subject to further mine development, expansion of transportation systems and convertibility of furnaces and boilers, all of which require significant development time. Moreover, both the production and combustion of coal is currently subject to environmental restrictions which further limit its accelerated development as an energy source.

The outlook for increasing production of crude oil from domestic sources is not favorable for the near term. Domestic production has declined from 9.6 million barrels per day in 1970 to 8.7 million barrels per day in December 1974. A further gradual decline is anticipated until oil from the North Slope of Alaska becomes available in late 1977, or until oil is produced from presently undeveloped areas as the Outer Continental Shelf. Nevertheless, the sharp increase in the price of oil should stimulate increased exploration which, in the intermediate or longer term, if combined with conservation efforts should ameliorate the present threat to our economy.

Also, long-term energy sources such as the development of geothermal and oil shale energy resources and the practical utilization of solar energy require major advances in the technology involved. This technology may take several years to develop, but should assist in the solution of the domestic shortage of energy sources if sufficient incentive is provided.

VI. THREAT TO THE NATIONAL SECURITY OF FUTURE SUPPLY INTERRUPTIONS

Section IV has described the serious impact on the national economy and consequently on the national security of the winter 1973-1974 embargo. It is reasonable to expect similar or even worse effects of an interruption of supply in the future, particularly in light of increasing dependence on foreign sources of supply. U. S. production is declining 1/ and alternative sources of energy supply require a long lead time for development. 2/ Moreover, supplies from the most secure Western Hemisphere sources are likely to decline as illustrated by the Canadian action to reduce oil exports to the United States.

The Department of Defense has described the risks to our national security posed by the threat of a future supply interruption. The Department of Defense, in its memorandum to me of January 9, 1975, stated:

> "The Department of Defense holds that this nation must have the capability to meet the essential energy requirements of its military forces and of its civil economy from secure sources not subject to military, economic or political interdiction. While it may be that complete national energy self-sufficiency is unnecessary, the degree of our sufficiency must be such that any potential supply denial will be sustainable for an extended period without degradation of military readiness or operations, and without significant impact on industrial output or the welfare of the populace. This is true because the national security is threatened when: (1) the national economy is depressed; (2) we are obliged to rely on non-secure sources for essential quantities of fuel; (3) costs for essential fuels are unduly high; and (4) we reach a point where secure available internal fuel resources are exhausted.
>
> "As you know, the Mandatory Oil Import Program was established in 1959 for the express purpose of controlling the quantity of imported oil which at that time had been found to threaten to impair the national security. In the intervening years we have

observed with growing concern the decline in domestic and western hemisphere petroleum productive capacity in relation to demand. The result has been a rapid expansion in our dependence on eastern hemisphere sources for the oil which is so essential to our military needs and the nation's economy. By 1973 that dependence had reached a level which risked substantial harm to the national economy in event of a peacetime supply denial. In event of general war, those risks would be substantially greater because of the sharply increased level of military petroleum consumption which would require support from domestic petroleum resources. The 1973 Arab oil embargo offered proof, if proof were needed, of the deterioration in our national energy situation.

"Energy conservation efforts and expanded use of alternate fuels halted the growth in crude oil and product imports during much of 1974. However, production of both oil and gas in the United States continues to decline, and indications are that import growth has resumed. Projections for 1975 indicate that imports may exceed seven million barrels a day, sharply higher than in 1974 and equal to near 19 percent of the probable total energy supply in 1975. To the extent that demand for petroleum imports causes increasing reliance on insecure sources of fuel, then such demand/reliance is a severe threat to our security."

Although oil exporters vary in their specific national goals and from time to time make unilateral decisions in regard to oil policies, oil exporters have the potential to bring about concerted actions which can explicitly deny the U. S. needed imports through such actions as last year's embargo. The loss in GNP growth and the significant unemployment created have on their face a significant impact in terms of the overall strength of the national economy. Continued reliance on foreign sources of supply leaves the U. S. economy vulnerable to further disruptive, abrupt curtailment or embargo of supplies, as well as to further increases in prices. Consequently, it is only prudent from a national security standpoint to plan for the possibility that another embargo, or other type of supply interruption, could occur.

VII. THE EXCESSIVE RELIANCE ON IMPORTED OIL AS A SOURCE OF WEAKNESS IN A FLEXIBLE FOREIGN POLICY

The dependence of the United States on imported petroleum can also adversely affect the ability to achieve our foreign policy objectives.

A healthy and vital domestic economy coupled with modern and adequate defense forces are the basic elements of strength in protecting our national security, but equally important in today's interdependent world is the continued smooth functioning of the international economic system and, in particular, the economic strength and viability of our Allies. The economies of many of these countries are almost totally dependent on imported oil and are therefore much more vulnerable to the threat of a new oil embargo. This could adversely affect the extent to which we can rely on those Allies in the event of a serious political or military threat to this country.

The risk to our Allies and to ourselves comes not only from the possibility of disruptions of supply and the impact this could have on foreign policies but also from the effect on their domestic economies of the high cost of oil imports. Individual consumer states faced with balance of trade deficits and having difficulties in financing them, could attempt to equilibrate their trade balances through "beggar-thy-neighbor" actions.

For example, deliberate measures could be taken to interfere with markets so as to increase exports and/or decrease imports from non-oil exporting countries. Specific examples would include export subsidies, import tariffs, quotas, and perhaps other non-tariff barriers to trade. Such action would, of course, be infeasible as a concerted policy by all deficit nations and therefore irrational. Indeed, should all embark on such a course, a severe economic loss would result through income reductions to all. Exports would be reduced for all oil importing countries with loss in economic activity.

A slowdown in economic growth and consequent unemployment resulting from such a course could have economic and social effects that could have serious political implications for our own security.

These potential problems could arise from the continued high levels of oil imports in conjunction with the price of oil, which generate large current account surpluses for OPEC. Given the limited absorptive capacity of some of these countries the increased oil revenues to these countries will not be immediately translated into increased imports. A recent estimate of the OPEC 1974 current account imbalance is about $60 billion. In contrast, the 1973 OPEC current account balance was only $13 billion. Projections of these balances through time indicate continued reserve accumulations at least until 1980, as some OPEC members will only gradually adjust their import levels to higher export revenues. An estimate of these accumulations as of 1980 is on the order of $200 to 300 billion (in terms of 1974 purchasing power) for OPEC as a group. Such a massive transfer of wealth would enhance the economic and political power of oil rich states which do not necessarily share our foreign policy objectives.

It is our expectation that these funds will be held and invested in a responsible manner. There is every economic incentive for the owners of these resources to take this course. The United States' basic economic position strongly favors maximum freedom for capital movements and we believe there is no reason to change this policy.

However, in view of the possible problems noted above, it is imperative that we join with our Allies in a concerted program of conservation, reduced reliance on imported sources of oil and development of alternative energy supplies. In this way we promote market forces that will work against further rises in already monopolistic oil prices, and exert some downward pressure on world oil prices.

The Department of Defense confirms these conclusions:

> "The appropriate restriction of oil imports will also impact favorably on the balance of payments and, more importantly, will permit the United States to make a significant contribution to international efforts to reduce total world oil demand which, through its recent rapid growth, has contributed to harmful increases in world oil prices. Those increases have posed serious threats to the economic and military viability of NATO and other friendly nations, as well as to the United States. Reduced dependence on imported oil can also minimize the adverse impact on the United States, NATO and other friendly nations of boycotts such as that imposed by the Arab nations in 1973."

The Federal Energy Administration has pointed out that reduction of reliance on imported oil and conservation are essential to U. S. participation in the International Energy Program. Administrator Zarb states:

> "Given the inability to create effective emergency supplies in the short run, it is important that the U. S. actively support and participate in international security agreements such as the International Energy Program (IEP), or a producer-consumer conference, with the objective of establishing future world oil prices acceptable to the U. S., the other importers, and the OPEC countries; and to decrease the likelihood of politically or economically motivated supply disruptions.
>
> "The IEP particularly is an important component of the U. S. energy supply security program. It would coordinate the responses of most major oil importing nations to international supply disruptions, provide guidelines for conservation and stockpile release programs, and avoid competition for available supplies, and thus limit the oil price increases likely to result from an oil shortage.
>
> "The IEP deters the imposition of oil export embargoes because it diminishes the ability of oil exporters to target oil shortfalls on particular oil importers, or greatly increases the cost of doing so. For example, under an IEP, a U. S. import shortfall of 3 MM B/D would require a much larger export cutoff, and increase the political and economic costs exporters would incur in imposing an embargo.
>
> "These measures do not exhaust the options available to the U. S. Government. They seem to us, however, to be among the most effective programs which the U. S. can implement at this time, given the character of the international energy market. As such, these options offer attractive prospects for minimizing the threat to our national security resulting from our need to continue to rely on imported oil."

VIII. FINDINGS AND RECOMMENDATIONS

As a result of my investigation, I recommend that the following determinations and recommendations be made by the Secretary of the Treasury and forwarded to the President:

FINDINGS

As a result of the investigation initiated by me, I have found that crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar are being imported into the United States in such quantities as to threaten to impair the national security. I further find that the foregoing products are being imported into the United States under such circumstances as to threaten to impair the national security.

RECOMMENDATIONS

I therefore recommend that appropriate action be taken to reduce imports of crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar into the United States, to promote a lessened reliance upon such products, to reduce the payments outflow and to create incentives for the use of alternative sources of energy to such imports. I understand that a Presidential Proclamation pursuant to Section 232 of the Trade Expansion Act of 1962 is being drafted by the Federal Energy Administration consistent with these recommendations.

David R. Macdonald
Assistant Secretary
(Enforcement, Operations, and Tariff Affairs)

FOOTNOTES

Section III.

1/ Treasury sources, Office of Energy Policy.

2/ Treasury sources, Office of Energy Policy.

3/ Treasury estimate, Office of Energy Policy.

4/ Statement of Donald S. MacDonald, Minister of Energy, Mines and Resources, on Canadian Oil Supply and Demand. Press Release November 22, 1974.

Section IV.

1/ Federal Energy Administration, Project Independence Report, Appendix at 284 (November 1974).

2/ Ibid. at 285.

3/ Ibid. at 289.

4/ Ibid. at 291.

5/ Ibid. at 296.

6/ Federal Energy Administration, Office of Economic Impact, The Potential Economic Costs of Future Disruptions of Crude Oil Imports, at 11 (December 23, 1974).

7/ Ibid. at 3.

Section V.

1/ Federal Power Commission, Staff Report, Requirements and Curtailments of Major Interstate Pipeline Companies Based on Form 16 Report (November 15, 1974).

2/ Report of a subcommittee of the House Committee on Banking and Currency on Oil Imports and Energy Security: An Analysis of the Current Situation and Future Prospects; 93rd Cong., 2d Sess. at 28 (September 1974).

3/ Federal Energy Administration, Project Independence Report, at 30 (November 1974).

Section VI.

1/ Federal Energy Administration, Project Independence Report at 5 (November 1974). See figures set forth in Annex F.

2/ See discussion of alternative energy sources in Section V. See also Federal Energy Administration, Project Independence Report at 6 (November 1974).

ANNEX A

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

JAN 4 1975

MEMORANDUM FOR ASSISTANT SECRETARY MACDONALD

SUBJECT: Request for Section 232 Investigation

Pursuant to my authority under Section 232 of the Trade Expansion Act, 76 Stat. 877 (19 U.S.C. 1862), I am requesting you to conduct an investigation under that section to determine the effects on the national security of imports of petroleum and petroleum products.

In my judgment, national security interests require that the procedures requiring public notice and opportunity for public comment or hearings, set forth in the Treasury regulations at 31 CFR Part 9, not be followed in this case. I further find that it would be inappropriate to hold public hearings, or otherwise afford interested parties an opportunity to present information and advice relevant to the investigation as provided by Section 232, as amended by the Trade Act of 1974. Therefore, I request that you proceed immediately with the investigation without doing so.

William E. Simon

William E. Simon

THE SECRETARY OF STATE

WASHINGTON

January 11, 1975

Dear Bill:

I am responding to your January 3 memorandum and that of David Macdonald requesting the view of the State Department as to the effect of petroleum imports on our national security.

The 1973-1974 oil embargo and production cutbacks demonstrated our vulnerability and that of other industrial nations to an interruption in foreign oil supplies. In addition to its direct economic cost in lost GNP and increased unemployment, the embargo stimulated massive and abrupt price increases which the producers have been able to maintain and increase. Without preventative action, OPEC's accumulation of financial assets will accelerate, reaching a total of about $400 billion in investable funds by the end of 1980. This massive transfer of wealth will greatly enhance the economic and political power of the oil rich states who do not share our foreign policy objectives. It will also cause a serious erosion of the political power of the United States and its allies relative to the Soviet Union and China.

Clearly, decisive action is essential. We have signalled our intention to move toward energy self-sufficiency. We must now demonstrate with action the strength of our commitment. In the short-term, our only viable economic policy option is an effective program of energy conservation. A vigorous United States lead on conservation will encourage similar

The Honorable
William E. Simon,
Secretary of the Treasury.

action by other consuming nations. Consumer cooperation on conservation now and the development of new supplies over time will deter producer aggressiveness by demonstrating that consumers are capable of acting together to defend their interests.

From the national perspective, a major United States' conservation effort will:

-- reduce OPEC's financial claims on United States resources and the transfer of economic and political power to the producers;

-- reduce our vulnerability to supply disruptions;

-- limit the effect of future OPEC price rises on United States growth and inflation; and

-- exert some downward pressure on world oil prices.

We believe substantially higher import license fees will contribute to our conservation strategy. They should reduce our dependence on imported energy and demonstrate to other consumers and producers the seriousness of our commitment not to remain vulnerable to escalating oil prices and threats of supply interruptions.

Warm regards,

Henry A. Kissinger

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

9 JAN 1975

INSTALLATIONS AND LOGISTICS

MEMORANDUM FOR The Assistant Secretary of the Treasury
(Enforcement, Operations, and Tariff Affairs)

SUBJECT: Section 232 Investigation on Petroleum Imports

Reference is made to your memorandum of 4 January 1975 in which you advised that the Department of the Treasury is conducting an investigation under Section 232, 76 Stat. 877 (19 U.S.C. 1862), to determine the effects on the national security of imports of petroleum and petroleum products. Department of Defense views on the security implications of current and projected oil import levels were solicited.

The Department of Defense holds that this nation must have the capability to meet the essential energy requirements of its military forces and of its civil economy from secure sources not subject to military, economic or political interdiction. While it may be that complete national energy self-sufficiency is unnecessary, the degree of our sufficiency must be such that any potential supply denial will be sustainable for an extended period without degradation of military readiness or operations, and without significant impact on industrial output or the welfare of the populace. This is true because the national security is threatened when: (1) the national economy is depressed; (2) we are obliged to rely on non-secure sources for essential quantities of fuel; (3) costs for essential fuels are unduly high; and (4) we reach a point where secure available internal fuel resources are exhausted.

As you know, the Mandatory Oil Import Program was established in 1959 for the express purpose of controlling the quantity of imported oil which at that time had been found to threaten to impair the national security. In the intervening years we have observed with growing concern the decline in domestic and western hemisphere petroleum productive capacity in relation to demand. The result has been a rapid expansion in our dependence on eastern hemisphere sources for the oil which is so essential to our military needs and the nation's economy. By 1973 that dependence had reached a level which risked substantial harm to the national economy in event of a peacetime supply denial. In event of

1-97

general war, those risks would be substantially greater because of the sharply increased level of military petroleum consumption which would require support from domestic petroleum resources. The 1973 Arab oil embargo offered proof, if proof were needed, of the deterioration in our national energy situation.

Energy conservation efforts and expanded use of alternate fuels halted the growth in crude oil and product imports during much of 1974. However, production of both oil and gas in the United States continues to decline, and indications are that import growth has resumed. Projections for 1975 indicate that imports may exceed seven million barrels a day, sharply higher than in 1974 and equal to near 19 percent of the probable total energy supply in 1975. To the extent that demand for petroleum imports causes increasing reliance on insecure sources of fuel, then such demand/reliance is a severe threat to our security. Given the gradual reduction in the quantity of petroleum available from relatively secure Western hemisphere sources, relative dependence on insecure sources in the eastern hemisphere will grow more rapidly than the overall growth in oil imports.

The exhaustion of our available internal fuel resources would pose an even greater threat to our security. Therefore, our petroleum policy should properly balance these opposing needs. That is to say, national security considerations would seem to require a proper balance of import restrictions with a decrease in demand. We recognize that the nation faces a period of several years during which dependence on insecure imported oil will exceed levels which we would consider acceptable from a national security viewpoint. Accordingly, we believe that every reasonable effort should be made to inhibit demand growth, and increase total internal energy supply while keeping the quantity of imports at the lowest level commensurate with the essential needs of national security and the civil economy.

The proper control of petroleum imports at minimum essential levels will provide assurance to those engaged in the development of conventional and non-conventional domestic energy resources that foreign oil, regardless of its availability and potential price competitiveness, will not be allowed to deny future markets to secure domestic energy supplies. The appropriate restriction of oil imports will also impact favorably on the balance of payments and, more importantly, will permit the United States to make a significant contribution to international efforts to reduce total world oil demand which, through its recent rapid growth, has contributed to harmful increases in world oil prices. Those increases have posed serious threats to the economic and military viability of NATO and other friendly nations, as well as to the United States. Reduced dependence on imported oil can also minimize the adverse impact on the United States, NATO and other friendly nations of boycotts such as that imposed by the Arab nations in 1973.

It is our conclusion that current and projected levels of demand and need for imported petroleum products and crude oil pose substantial risks to the national security of the United States. Additional growth in the need to import will result in further dependence on eastern hemisphere sources from which oil must move over long and vulnerable sea lanes. Moreover, it will depend predominantly on nations which have demonstrated the will and ability to employ their oil resources for political purposes. Further, the rapid growth in U.S. oil imports since 1970 has had, and will continue to have if it persists, a major role in creating and maintaining the conditions which led to the oil price rises of 1973 and 1974, and impaired the ability of our NATO allies to obtain their minimal oil needs in periods of supply disruption. Future growth will exacerbate those conditions. Increasing dependence on imported oil is inimical to the interests of the United States and should be subject to such controls as may be needed to insure that oil imports are properly balanced against our essential needs and reflect our development of additional energy resources.

Attached for your information are estimates of military petroleum requirements.

A. I. Mendolia

ARTHUR I. MENDOLIA
Assistant Secretary of Defense
(Installations & Logistics)

Attachment

MILITARY PETROLEUM REQUIREMENTS

Estimated consumption, U.S. forces, FY 1975 - 558,000 barrels per day [1/]

Estimated consumption in general war - 1,800,000 barrels per day

In addition to purely military requirements there is a substantial additional need for direct and indirect use of petroleum by defense-related private industry. No data is available on the amount of petroleum involved, but broad estimates of total energy consumption by defense industry indicate that from 1.5 to 3.0 percent of total national energy consumption is currently required. That percentage would increase substantially in a protracted general war, probably largely due to conversion of industry to war production, without necessarily reflecting sharply increased energy requirements on a btu basis.

1/ Currently approximately 35% of consumption is obtained from foreign sources. No significant changes in consumption are projected through FY 1976.

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

In Reply Refer To:
EBM:AD/MMSDA-MS-DFF

JAN 8 - 1975

Honorable David R. Macdonald
Assistant Secretary
Enforcement, Operations and Tariff Affairs
Department of the Treasury
Washington, D.C. 20220

Dear Mr. Macdonald:

In response to your memorandum of January 4, 1975, relating to the request for investigation on petroleum imports under Section 232 of the Trade Expansion Act, we have enclosed some observations concerning the effects on the national security of imports of petroleum and petroleum products.

Sincerely yours,

Jack W Carlson

Assistant Secretary of the Interior

Enclosure

THE EFFECTS ON NATIONAL SECURITY
ON IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS

Imports of crude oil in the first nine months of 1974 averaged 3.3 million barrels per day, and imports of petroleum products and unfinished oils in petroleum averaged 2.6 million barrels per day. Total imports as a percent of supply accounted for 36 percent and demand for petroleum products in the same period averaged nearly 16.5 million barrels per day. In the first nine months of 1974, residual fuel oil accounted for 60.2 percent of our product imports and 61.3 percent of domestic residual fuel oil demand; distillate fuel oil, 9.3 percent of imports, and 8.6 percent of demand. Imports of gasoline constituted 8.4 percent of products, but only 3.4 percent of domestic demand; jet fuel, 6.3 percent of imports and 16.7 percent of demand. Imports of liquefied gases and ethane comprised 4.6 percent of products and 9 percent of demand. Other products, which includes naphthas, kerosine, lubricants, waxes, asphalt, etc., aggregated 11.2 percent of product imports and 13.7 percent of domestic demand.

If crude oil imports were cut off, refining operations in the U.S. would have to be curtailed sharply. Based on average refinery yields (August 1974), domestic refineries obtained from the 3.3 million barrels a day of crude oil imported, nearly 1.6 million barrels a day of gasoline, nearly 700 thousand barrels a day of distillate fuel oil, and 274 thousand barrels a day of residual fuel oil.

Viewed narrowly, namely in terms of the probable needs of the Department of the Defense under present conditions or in a major nuclear war, it would appear that petroleum importations at current levels would not jeopardize national defense per se. However, a cut off of foreign supplies of crude petroleum and/or petroleum products would have a serious impact on the national economy, such as was demonstrated in the 1973-74 Arab Oil Embargo. Broadly viewed, a disruption of imports could have serious implications for the national security, as well, in that a strong and healthy economy is generally considered essential to our overall ability to maintain our free democratic institutions.

Still another consideration is the adverse impact petroleum products imports have on expansion of domestic refinery capacity. We cannot now meet our normal domestic needs from the full output of existing refinery capacity. An increase in imports of products would be harmful to national security because increasing dependence on such sources would not only make the United States more vulnerable to disruptions in supply flows, but also inhibit domestic refinery expansion.

Even without a further embargo, large imports pose an economic threat. The accompanying chart includes a 1974 estimated value of products and crude oil imports totaling $23.5 billion. Furthermore, in view of recent OPEC announcements, expenditures for petroleum imports could be even greater in 1975, and subsequent years. Therefore, this capital drain could have serious repercussions on the U.S. economy, and endanger the national security thereby. Moreover, large capital exports to nations not necessarily friendly to the objectives of the United States increases the potential for harm to ourselves or to our allies, and thus increases the threat to our security.

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

JAN 10 1975

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

SUBJECT: Section 232 Investigation of Petroleum Imports

This is in response to your memorandum of January 4, 1975, concerning the investigation of oil imports being initiated under Section 232 of the Trade Expansion Act of 1962, as amended. Specifically, your memorandum forwarded the request of Assistant Secretary of the Treasury Macdonald for (a) any information this Department has bearing on the effects on the national security of imports of petroleum and petroleum products, and (b) advice as to whether petroleum and petroleum products are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

Based on prior analyses and a brief review during the past five days, it is my opinion that there is no question that imports of petroleum at current volumes and circumstances, including the current level of OPEC prices, threaten to impair the national security. Under these circumstances, we recognize the threat posed by oil imports to the ability of the United States to produce goods and services essential for ensuring our national security preparedness. We recognize the additional threat posed by the possibility of an extended embargo of oil imports. Section 232 of the Trade Expansion Act, the basis for the present investigation, in fact requires that recognition be given to "the close relation of the economic welfare of the Nation to our national security."

As you know, the quota system of the Mandatory Oil Import Program, based on national security findings, was in effect from 1959 to early 1973. Its objective was to restrict imports of petroleum and petroleum products to 12.2 percent of domestic production in Districts I-IV (the Eastern 80 percent of the continental U.S.) and to no more than the

AMERICAN REVOLUTION BICENTENNIAL 1776-1976 difference between demand and domestic supply in District V (the West Coast). At that time, foreign oil was priced well below domestic oil and restrictions on imports were judged necessary to preserve a viable domestic crude oil producing industry. However, in recent years domestic consumption has increased much faster than production, and it has not been feasible to maintain the old formula. In early 1973, import quotas were replaced by the license fee program, and imports of crude petroleum and products by the end of 1974 reached a figure which amounted to slightly more than 35 percent of consumption. I am enclosing a publication from the Bureau of the Census in which import quantities for 1973 and 11 months of 1974 are given.

The experience of the Arab oil embargo last year, even though it halted only about one-half of our oil imports, confirms the risk of disruption to the economy which is implicit in dependence on imports of oil to this degree. The oil embargo is believed to have produced a reduction in U.S. GNP by some $10 to $20 billion. All sectors of the economy were adversely affected, with the consumer durables sector and housing construction most heavily hit. Further, it is estimated that a substantial part of the inflationary rise of prices during 1974, particularly in the first half, is attributable to the direct and indirect effects of the rise in overall energy costs which followed the rapid escalation of costs for Arab oil. In view of this record of injury caused by loss of foreign oil supply and our continuing vulnerability to future injury of even greater impact, it is my opinion that imports at current and projected levels do constitute a threat to impair the national security.

In summary, I perceive the threat as being based on two factors: the possibility of an extended embargo and the inflationary impact of higher prices and volumes. We certainly want to ensure, should a positive finding be determined, that any recommended course of action would address these factors. If I can be of any further assistance in your deliberations, please let me know.

Frederick B. Dent

Secretary of Commerce

Enclosure

U.S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

JAN 9 1975

MEMORANDUM TO DAVID R. MACDONALD, ASSISTANT SECRETARY
(ENFORCEMENT, OPERATIONS, AND TARIFF AFFAIRS)

SUBJECT: Section 232 Investigation on Petroleum Imports

REFERENCES: Memorandum, January 4, 1975, above subject from Secretary of the Treasury, William E. Simon.

Memorandum, January 6, 1975, above subject, Assistant Secretary of the Treasury, David R. MacDonald.

The Department of Labor currently has no information available directly relating to whether petroleum or petroleum products are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

Data usually provided by the Department of Labor for Section 232 investigations could not be collected and made available within the time required by Mr. Simon's memorandum of January 4. If you wish us to proceed with the fully detailed Department of Labor portion of a Section 232 investigation, we would be pleased to consult with you on the matter.

As noted in the memorandum of January 4, some work has been done in the Department concerning the current effects of imports of petroleum and petroleum products, albeit not in relationship directly to national security. This work includes:

1. The Secretary of Labor's Report on the Impact of Energy Shortages on Manpower Needs, dated March 1974. This report, required under Section 506 of the Comprehensive Employment and Training Act of 1973, deals with the impact of energy shortages on current and future employment. A copy is enclosed.

2. Labor Report, a part of the Project Independence Blueprint Task Force Report, dated November 1974. This report is available from the Federal Energy Administration.

1-83

3. "The Effects of Oil Resource Allocation", an unpublished study recently completed by Professor Yoram Barzel of the University of Washington under contract to the Department of Labor. The study is currently being reviewed within the Department. If it appears that this study contains material relevant to the effect of petroleum and petroleum products imports on national security we will advise you.

Joel Segall
JOEL SEGALL
Deputy Under Secretary
International Affairs

Enclosure

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 8, 1975

Dear Mr. Macdonald:

Petroleum and petroleum products are being imported into the United States in such quantities and under such circumstances as to threaten to impair the national security.

The quantity of imports of petroleum and petroleum products is so large that these imports are essential to the continued functioning of our economy at acceptable levels of employment and output. Unless appropriate action is taken, petroleum and petroleum product imports would continue at current or higher levels, leaving the economy open to serious damage if those imports were interrupted.

The circumstances under which petroleum and petroleum products are being imported into the United States lead to a threat to national security. Foreign governments may interrupt the flow of petroleum and petroleum product imports to the United States to achieve economic or political ends. Oil-exporting nations whose exports are now essential to the continued security of the United States have agreed to act jointly in matters of oil exports. Collective action by some petroleum exporters reduced U.S. petroleum imports during 1973-1974 with serious damage to the economy and security of the United States. A threat to our national security will exist until the United States can absorb the effects of an embargo without damage to its vital economic and military interests.

The United States can absorb the effects of an embargo without serious damage only if imports from those countries which act jointly on petroleum matters are not essential to the United States. These imports would not be essential if the economy of the United States required only as much petroleum and petroleum products, or their substitutes, as could be produced within our borders or imported from nations dwhich did not belong to the group which acted jointly on petroleum matters. Consequently, actions which cause the economy to adjust to the consumption of less energy in the form of petroleum and petroleum products, and/or which cause more

AMERICAN REVOLUTION BICENTENNIAL 1776-1976 petroleum products to be supplied by domestic sources, would lead to greater national security.

Alternatively, imports from those nations which act jointly on petroleum matters would not threaten the security of the United States if alternative sources of petroleum and petroleum product supply could easily and readily replace interrupted imports. At present such supplies do not exist, and consequently there is a threat to the national security of the United States.

In summary, petroleum and petroleum products are now being imported in quantities such that serious damage to national security would result from interruption of these imports. The circumstances under which petroleum and petroleum products are being imported makes those imports insecure. Consequently, petroleum and petroleum product imports threaten the national security.

Sincerely,

Alan Greenspan

Honorable David R. Macdonald
Assistant Secretary (Enforcement, Operations,
and Tariff Affairs
Department of the Treasury
Washington, D.C. 20220

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

JAN 11 1975

David R. Macdonald
Assistant Secretary
Enforcement, Operations, and
Tariff Affairs
U.S. Department of the Treasury
Washington, D. C. 20220

Dear Mr. Macdonald:

This is in response to your memorandum of January 4, 1975, concerning Treasury Department Section 232 Investigation on Petroleum Imports.

The Project Independence Report projected continued U.S. reliance on imported oil through 1980, given projected U.S. domestic supply/demand responses to world oil prices of $4-$11 per barrel.

It is our judgment that, whatever its source, imported oil is inherently less secure than domestic oil. Oil import shortfalls jeopardize the national security of the U.S. and other oil dependent nations because they impose severe economic costs. For that reason, the costs of offsetting that insecurity ought to be reflected explicitly in the domestic price of imported oil.

The future supply security of U.S. imports was a major focal point in the Project Independence Report. The International Assessment of that report assessed U.S. vulnerability to foreign political and economic coercion resulting from disruptions in the supply of imported crude. It should be noted, moreover, that a significant disruption in imports of certain finished products, such as residual fuel oil, could have major economic security implications for the country. For example, approximately 80 percent of residual fuel oil consumed in the U.S. is imported and most of it is consumed on the East Coast for the production of electricity and for industrial use. At the present time, very few of these users have the capability of converting to other fuels in the event of a temporary supply disruption lasting several months or longer.

The report evaluates a number of alternatives for offsetting the costs of oil import interruptions. The criteria for evaluating these options included their relative contribution to U.S. energy import supply security, their costs, and their impact on world oil prices. The most prominent options are: 1) Regulation of energy consumption during an oil import shortfall; 2) Alternative domestic emergency energy supplies; 3) International oil sharing. Each of these is discussed in greater detail below.

1. Regulation of energy consumption:

As was demonstrated during the 1973-74 embargo, government regulation of domestic fuel supplies can diminish the economic impact of an oil import embargo. FEA has estimated that an oil shortfall of approximately 1 million barrels/day can be managed by fuel allocation programs, without imposing prohibitive costs on the economy. In the short-term, 1975-76, this option is likely to remain effective. In the longer term, more efficient energy utilization will diminish the extent to which oil import shortfalls can be managed exclusively by relying on minimal cost fuel allocation programs.

2. Alternative emergency energy supplies:

In the short-term, 1975-76, emergency energy supply availability is limited to current inventories, domestic and international stocks, and any available production capacity of exporting states not participating in the embargo.

In the longer term, strategic petroleum reserves could be developed. For example, our assessment of current oil import security indicates the desirability of 1 billion barrels of crude oil, stored in U.S. salt-dome caverns as they become available. The amount could be adjusted as the threat assessment changes. Such a stockpile could offset a 3 MM barrel/day import cut for nearly one year. Given domestic conservation programs and alternate supply sources, however, the stockpile would most likely last longer than one year.

It will take several years to build strategic reserves to the desired level. In the meantime, the U.S. must consider ways to dampen the rate of increase in oil imports. We feel that, even at current world oil prices, the cost of using imported oil, i.e., the expected economic loss caused by an import shortfall, and/or the costs of emergency supply programs to diminish that loss, is currently not internalized by the U.S. economy. To this end, FEA feels a "security fee" on imported oil would be effective. This fee ($1 to $3 per barrel) could be used in part to finance the strategic reserve programs, and to encourage development of domestic energy resources.

3. International energy agreements:

Given the inability to create effective emergency supplies in the short run, it is important that the U.S. actively support and participate in international security agreements such as the International Energy Program (IEP), or a producer-consumer conference, with the objective of establishing future world oil prices acceptable to the U.S., the other importers, and the OPEC countries; and to decrease the likelihood of politically or economically motivated supply disruptions.

The IEP particularly is an important component of the U.S. energy supply security program. It would coordinate the responses of most major oil importing nations to international supply disruptions, provide guidelines for conservation and stockpile release programs, and avoid competition for available supplies, and thus limit the oil price increases likely to result from an oil shortage.

The IEP deters the imposition of oil export embargoes because it diminishes the ability of oil exporters to target oil shortfalls on particular oil importers, or greatly increases the cost of doing so. For example, under an IEP, a U.S. import shortfall of 3 MM B/D would require a much larger export cutoff, and increase the political and economic costs exporters would incur in imposing an embargo.

These measures do not exhaust the options available to the U.S. Government. They seem to us, however, to be among the most effective programs which the U.S. can implement at this time, given the character of the international energy market. As such, these options offer attractive prospects for minimizing the threat to our national security resulting from our need to continue to rely on imported oil.

We have enclosed a copy of the International Assessment chapter from the Project Independence Report together with a copy of the PIMS "U.S.-OPEC Petroleum Report," which provides OPEC export volume and pricing data for 1973 by individual member countries. The 1974 report has not yet been compiled.

We trust that this information will be helpful in the conduct of your investigation.

Sincerely,

Frank G. Zarb
Administrator

Attachments
a/s

cc: William E. Simon
Secretary of the Treasury

ANNEX C

CRUDE PETROLEUM AND PETROLEUM PRODUCTS 1/

1974 Data in 1,000 bbl/day

Month	Domestic Production	Crude Imports	Product Imports	Total Imports	Domestic Demand
January	8,907	2,382	2,973	5,455	17,270
February	9,156	2,248	2,973	5,271	17,371
March	8,950	2,462	2,753	5,215	16,045
April	8,952	3,267	2,703	5,970	15,919
May	8,903	3,748	2,454	6,202	15,624
June	8,777	3,957	2,218	6,175	16,459
July	8,893	4,167	2,143	6,310	16,156
August	8,918	3,905	2,286	6,190	16,332
Eight Month Average	8,932	3,267	2,563	5,830	16,397

Imports as percent of demand - 35.6%

LATEST DATA 2/

Four Weeks (Ending Dec. 13)	8,661	4,047	3,360	7,407	18,742

Imports as percent of demand - 39.5%

1/ FEA, Monthly Energy Review - Oct. 1974

2/ FEA, Petroleum Situation Report - Dec. 13, 1974

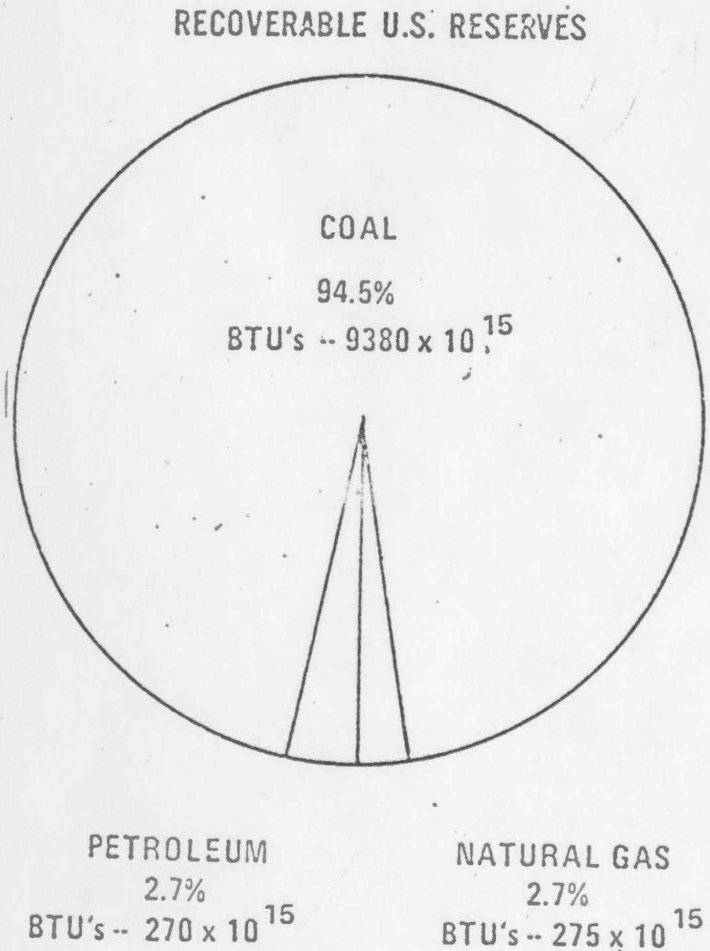
ANNEX D

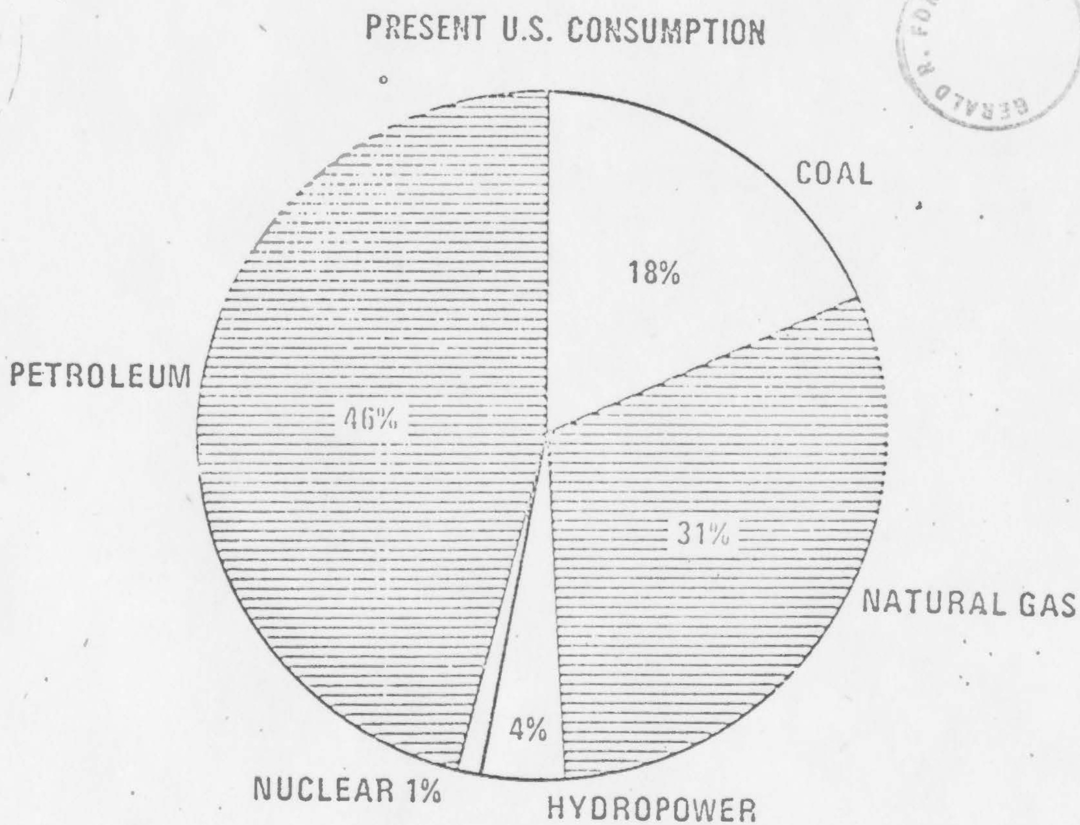
U.S. IMPORTS OF CRUDE OIL
AND PETROLEUM PRODUCTS BY SOURCE
JANUARY THRU OCTOBER 1974
IN 1000 BBLS/DAY

Country	Total
Algeria	220
Egypt	14
Kuwait	2
Qatar	16
Saudi Arabia	382
United Arab Emirates	82
Major Arab OPEC Countries	716
Ecuador	71
Indonesia	296
Iran	542
Nigeria	670
Venezuela	1,131
Gabon	33
Major OPEC Countries	3,459
Canada	1,015
Netherland Antilles	494
Angola	50
Italy	100
Netherlands	52
Mexico	10
Bahamas	213
Trinidad	272
Others	178
Grand Total	5,843

Source: Federal Energy Administration from Census Bureau FT-135 Report.

THE CRUX OF U.S. PROBLEM





Source: FEA - Project Independence P-13

U.S. Crude Oil Daily Averages in 1,000 bbls per day Production

Date	Quantity*
1964	7,614
1965	7,804
1966	8,295
1967	8,810
1968	9,095
1969	9,238
1970	9,637
1971	9,462
1972	9,441
1973	9,187
4 weeks ending Dec. 13	8,661**

Sources: *API Annual Statistical Review (BuMines) Sept. 1974, page 13.
**FEA Petroleum Situation Report Dec. 13, 1974.

Office of the Attorney General
Washington, D.C.

JAN 14 1975

Honorable William E. Simon
Secretary of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

This is in response to your letter of January 7, 1975 requesting my views as to compliance with § 232 of the Trade Expansion Act of 1962, as amended, 19 U.S.C. § 1862, and with applicable Treasury regulations, of the proposed procedures for adoption and the proposed contents of an amendment to Proclamation 3279, Adjusting Imports of Petroleum and Petroleum Products into the United States, 3 CFR Proc. 3279, as amended.

Proclamation 3279 was originally promulgated on March 10, 1959 (24 Fed. Reg. 1781), after a finding by the Director of the Office of Civil and Defense Mobilization pursuant to 19 U.S.C. § 1352a (Pub. L. No. 85-686, § 8(a), Aug. 20, 1958, 72 Stat. 678) "that crude oil and the principal crude oil derivatives and products are being imported in such quantities and under such circumstances as to threaten to impair the national security," which finding was concurred in by the President. As you are aware, that finding was based upon the facts that existed at that time, an overproduction of petroleum in the world market with a consequent extremely low price for foreign petroleum which discouraged domestic exploration and production. No one doubts that the finding was accurate, and a proper basis for the Proclamation, in 1959, 1/ but the question arises whether it is a lawful basis for the presently contemplated modification of the restrictions, especially in light of the drastic change from the factual situation which provided the

1/ In Texas Am. Asphalt Corp. v. Walker, 177 F. Supp. 315 (S.D. Tex. 1959), the President's judgment that the facts called for exercise of his authority was held not subject to judicial review.

basis of the 1959 finding. Today the world is faced with high prices and threatened cutbacks in production, and the United States has recently suffered an oil embargo by many producing states.

Section 232(b) of the Trade Expansion Act, as amended, 19 U.S.C. § 1862(b), after setting forth the requirement for an investigation and finding of a threat to the national security, provides that the President

> . . . shall take such action, <u>and for such time</u>, <u>as he deems necessary</u> to adjust the imports of such article and its derivatives so that such imports will not so threaten to impair the national security. (Emphasis supplied.)

The normal meaning of the phrase "such action," in a context such as this, is not a single act but rather a continuing course of action, with respect to which the initial investigation and finding would satisfy the statutory requirement. This interpretation is amply supported by the legislative history of the provision, which clearly contemplates a continuing process of monitoring and modifying the import restrictions, as their limitations become apparent and their effects change. See *e.g.*, the comments on the floor of the House by Congressman Cooper, floor manager of the bill which adopted the provision: 2/

2/ 19 U.S.C. § 1862(b) has its origin in Section 7 of the Trade Agreements Extension Act of 1955, 69 Stat. 166. It was originally codified to 19 U.S.C. § 1352a. In the Trade Agreements Extension Act of 1958, Pub. L. No. 85-686, § 8(a) Aug. 20, 1958, 72 Stat. 678, the wording of the subsection was slightly changed so as to increase the President's flexibility and power, *see* S. Rep. No. 1838, 85th Cong., 2d Sess., 1958 U.S. Code Congressional and Administrative News 3614, and a new subsection was added which is now 19 U.S.C. § 1862(c). In 1962 the entire section was reenacted as § 232 of the Trade Expansion Act of 1962, Pub. L. No. 87-794, Oct. 11, 1962, 76 Stat. 877, and codified to 19 U.S.C. § 1862, without change in meaning or intent, *see* S. Rep. No. 2059, 87th Cong., 2d Sess., 1962 U.S. Code Congressional and Administrative News 3118. Most recently the Trade Act of 1974, Pub. L. No. 93-618, § 127(d), made further slight amendments in the investigation procedure.

The President would not only retain flexibility as to the particular measure which he deems appropriate to take, but, having taken an action, he would retain flexibility with respect to the continuation, modification, or suspension of any decision that had been made. 3/

The Conference Report on the bill stated with reference to § 232(b) that "it is . . . the understanding of all the conferees that the authority granted to the President under this provision is a continuing authority . . . ." H. Rep. No. 745, 84th Cong., 1st Sess. 7 (1955). The 1958 amendments to § 232(b) were aimed at eliminating the same sort of wastefulness and duplication of effort which a requirement of reinvestigation for every modification of restrictions would produce. See S. Rep. No. 1838, note 2 supra.

The interpretation here proposed, whereby import restrictions once imposed can be modified without an additional investigation and finding, has been sanctioned by the Congress' failure to object to the President's proceeding on that basis repeatedly during the past fifteen years. Proclamation 3279 has been amended at least twenty-six times since its issuance in 1959, see 19 U.S.C. § 1862 note. Some of those amendments have been minor administrative changes; others have involved major alteration of the means by which petroleum imports were restricted; none have been preceded by a formal § 232(b) investigation and finding. The force of congressional acquiescence in this practice is particularly strong since Congress has, during that period, twice amended the very provision in question--the last time only a month ago. Cf. Saxbe v. Bustos, ___ U.S. ___, ___, 43 USLW 4017, 4021 (Nov. 25, 1974).

3/ 101 Cong. Rec. 8160-61 (1955). Because these remarks were made in amplifying the Conference Report by the House floor manager, they are entitled to be given the same weight as a supplemental committee report. See Duplex Printing Press Co. v. Deering, 254 U.S. 443, 474-75 (1921).

The foregoing does not imply that the statute contemplates modification of restrictions without any Presidential determination that the modification is necessary to protect against imports that threaten national security. To the contrary, not only for modification but even for continuation of restrictions the statutory scheme presumes that the President will monitor, through the appropriate agency (now the Department of the Treasury), the factual situation and the effectiveness of his measures in meeting it. The point, however, is that this monitoring, both for continuation and for modification, does not have to comply with the formal investigation and finding requirements applicable to the original imposition of the restriction. And there is nothing to indicate that this rational scheme somehow changes when the factual basis on which a threat to the national security is found changes from that which governed the original determination. Such a distinction not only has no foundation in the statute or its legislative history; it is also unworkable, since facts constantly change and there is no apparent criterion for determining when the change is significant enough to give rise to a reinvestigation and renewed finding requirement.

My conclusion that there is no legal requirement for a new § 232(b) investigation and finding in order to issue the proposed Proclamation does not preclude your making a specific investigation and finding if you wish to do so in connection with the constant monitoring which the statute envisions. Such discretionary action would not be subject to the requirements of § 232(b) nor to the Treasury regulations (31 CFR Part 9) relating to that section. Moreover, even if it were, there is no doubt that you would not be required to give notice, allow for public comment, or hold public hearings on the matter. Section 232(b) states that "the Secretary shall, if it is appropriate and after reasonable notice, hold public hearings . . . ." (Emphasis added.) There is no evidence in the report of the committee which drafted this language, S. Rep. No. 93-1298, 93d Cong., 2d Sess. 96 (1974), that it is meant to establish a standard any more specific or restrictive than its language implies. Your own regulations require public notice upon undertaking an investigation and allow for public comment, 31 CFR

§9.7(b); and they provide for public hearings when the Assistant Secretary deems it appropriate, 31 CFR § 9.7(f). But these provisions can be varied or dispensed with in emergency situations or when, in your judgment, national security interests require, 31 CFR § 9.8. Your letter states that you have determined in the present case that national security interests require a most speedy investigation which would not allow for notice and hearings or comments. This reason fully suffices for dispensation from any such requirements of the statute and the regulations.

There remains for consideration the question whether § 232(b) authorizes the types of measures adopted by the proposed Proclamation to restrict imports of petroleum and petroleum derived products. It is clear that § 232 grants the President the broadest flexibility in determining what measures to use to restrict imports, as well as in modifying the restrictions in light either of changed circumstances or of evidence that existing restrictions were insufficient. The language of the section, "take such action . . . as he deems necessary," reflects this, and the legislative history reinforces it.

The report of the Committee which drafted this provision stated that the President was to have the authority to take "<u>whatever</u> action is necessary to adjust imports." (Emphasis supplied.) S. Rep. No. 232, 84th Cong., 1st Sess. 4 (1955). On the floor of the Senate, Senator Milliken, who with Senator Byrd actually drafted the provision as an amendment to the House bill, stated that:

> It grants to the President authority to take whatever action he deems necessary to adjust imports . . . . He may use tariffs, quotas, import taxes, or other methods of import restrictions. 101 Cong. Rec. 5299 (1955).

Senator Barkley, also a member of the Senate Finance Committee which added this section to the bill, stated that the President can

> . . . impose such quotas or take other steps as he may believe to be desirable in order to maintain the national security. 101 Cong. Rec. 5298 (1955).

Senator Bennett, again a member of the Senate Finance Committee, commented on the powers the President could give to the Office of Defense Mobilization, saying that

> . . . they will have at their command the entire scope of tariffs, quotas, restrictions, stockpiling, and any other variation of these programs. 101 Cong. Rec. 5588 (1955).

The Conference Report made clear that the President's flexibility in choosing the means extended not merely to his initial action but also to any modifications that he might make in light of changed circumstances. H. Rep. No. 745, supra; see the floor remarks of Congressman Cooper, quoted at page 3, supra. The 1958 amendments intended no change in this flexibility and discretion. The Senate Report stated:

> As was the purpose when the national security section was added in the 1955 extension of the act, the amendments are designed to give the President unquestioned authority to limit imports which threaten to impair defense-essential industries.

S. Rep. No. 1838, supra. A broad interpretation of the President's powers under § 232(b) has been concurred in by the courts. As stated in Pancoastal Petroleum, Ltd. v. Udall, 348 F.2d 805, 807 (D.C. Cir. 1965), "The law confers discretion on the President in broadest terms."

Against this background, there is no doubt that the devices employed in the draft Proclamation are within the authority of § 232(b). These include a return to the tariffs eliminated by Proclamation 4210 of April 18, 1973, and an increase in the license fees established by the same

Proclamation. Both tariffs and license fees are traditional means of restricting imports and certainly envisioned by the statutory provision.

Sincerely,

W B Saxbe

Attorney General