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WALL STREET JOURNAL, MONDAY, AUGUST 4, 1975

REVIEW & OUTLOOK

Nabbing the Pink Panther

Like Inspector Clouseau, who fumbles his way to solution of a crime, the Democratic Congress and Republican President have been bungling and stumbling on energy legislation for months, yet in the end the perfect solution—oil-price decontrol—seems to have been dropped in their laps ...

but only $5.25 during August, there is bound to be a brief and overwhelming incentive to hold back domestic production. Before the Federal Energy Administration bureaucrats knew what hit them, there would be a sufficient shortfall in crude supply to drive up retail

TAB A

FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

August 6, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

THROUGH: ROGERS C.B. MORTON

SUBJECT: STRATEGY ON DECONTROL

BACKGROUND

Before the recess, the House passed the Staggers pricing amendment to H.R. 7014. This provision rolls back the price of new and released oil to $7.50 per barrel, but provides that "high cost" oil can sell for as much as $10.00 per barrel. Old oil prices will remain at $5.25 per barrel for ten years or more.

The House then defeated your 39-month decontrol compromise program and passed S.1849, a simple 6-month extension of the price control provisions. Senator Mansfield has indicated that this legislation will not be delivered until the end of August so Congress can act quickly on the veto override. If you choose not to sign the extension, the EPAA will expire on Sunday, August 31, 1975. Congress will not be able to act on the veto until it returns at noon, Wednesday, September 3.

In addition to these events, OPEC meetings on pricing policies are scheduled for September 4 and 24, and in all likelihood will result in an announced price increase of $1.00 to $2.00 per barrel by October 1.

The vote on overriding the veto will be very close and is hard to predict. There are several actions which you can take to improve the chances of sustaining the veto. This memorandum requests several key decisions on these actions and the thrust and timing of public announcements on the subject.

DECONTROL ALTERNATIVES

This section presents your alternatives on decontrol, both on the veto and actions to mitigate its effects.

Option 1. Veto simple 6-month extension.

PROS: - Will be major action to stimulate supply and cut energy demand.

- Will remove a complex and counterproductive regulatory system.

CONS: - Will result in difficult political problems with respect to price increases and with special interest groups such as airlines, farmers, etc.

- Will leave us temporarily without minimally needed authorities to deal with the natural gas shortages or special petroleum problems such as propane.

Recommendation: Veto the 6-month extension.

Presidential Decision:

Agree X

Disagree ______

Option 2: Remove the $2.00 and $.60 per barrel import fees on crude and products respectively effective if the veto is sustained.

Removal of the import fees coupled with immediate decontrol and the other supply and demand actions of your original program will reduce imports by approximately 1.4 million barrels per day in 1977. This compares with 1.2 million barrels per day if your 39-month decontrol compromise was accepted. These import savings remain below the 2 million barrels per day of your original program announced in January.

PROS: - Will substantially cushion if not eliminate the economic impact of sudden decontrol.

- Will increase Congressional support for sustaining your veto of the simple extension of the EPAA.

CONS: - Will lower the conservation savings.

- Will reduce Federal revenues, but also decreases windfalls to petroleum industry.

- Comes at an inopportune time vis-a-vis OPEC price increases.

Recommendation: Remove both the crude and product import fees effective when the veto is sustained.

Presidential Decision:

Agree X

Disagree ________

Option 3. Support rapid enactment of a windfall profits tax and energy tax rebates to consumers.

The Senate Finance Committee has already voted out a windfall profits tax effective with immediate decontrol which is similar to the Administration's proposal and which allows for consumer rebates.

PROS: - Tax will remove windfalls and help cushion economy from effects of decontrol.

- Support will help sustain the veto.

- Administration support of this bill will help Chairman Long and will increase the likelihood of rapid enactment.

CONS: - The tax is probably somewhat more harsh than the Administration would propose.

Recommendation: Support the Finance Committee legislation in concept and basic provisions and indicate that rebates should not exceed revenues generated from the tax.

Presidential Decision:

Agree X

Disagree ________

Option 4. Jawbone industry to ease transition during the few months following immediate decontrol.

PROS: - Such action would make the transition to full decontrol easier in terms of supplier-purchaser relationships, regional problems, etc.

- Would reduce adverse political backlash if the veto is sustained.

- Could be viewed publicly as the President taking action to assure oil companies act responsibly.

CONS: - Could prove to be ineffective if industry doesn't respond accordingly.

- Could be interpreted as major Administration concern on the problems with immediate decontrol.

- Might appear as industry/Administration collusion.

Recommendation: Begin early but quiet jawboning for voluntary cooperation.

Presidential Decision:

Agree X

Disagree ________

Option 5. New Legislative Initiatives

There are four basic legislative suboptions which could be proposed either before or after the veto vote to provide needed authorities and allay fears about the impact of decontrol.

Suboption A. Propose legislation which would merely convert the EPAA from a mandatory to a standby basis.

PROS: - A relatively simple proposal which would diffuse any fight over the specifics of allocation authorities.

- Would help to convince interest groups with identified problems that FEA still has authority to allocate if necessary.

CONS: - Would hurt chances of sustaining the veto since such a proposal is so similar to a simple extension of the EPAA.

Suboption B. Request limited new authorities to deal only with identified problems such as propane or independent marketers.

PROS: - Deals specifically with problem areas caused by immediate decontrol and would thus help to sustain your veto.

- It is significantly different from a simple continuation of the EPAA in either a mandatory or standby form.

CONS: - It could be easily "Christmas treed" by special interest groups.

- May only serve to heighten concerns about letting controls lapse.

- Special interest groups which are not included will fight for veto override.

Suboption C. Integrate selected petroleum authorities with the Natural Gas Emergency Standby Act of 1975, which we are proposing to deal with the natural gas shortage.

PROS: - Such a proposal is significantly different from a simple extension of the EPAA and should not hurt sustaining the veto.

- Standby emergency authorities are needed in any event to deal with the projected natural gas shortage this winter and this would be an effective mechanism in which to get selected petroleum authorities.

CONS: - It will not be possible to cast all needed petroleum authorities as natural gas related.

Suboption D. Propose legislation to implement the 39-month decontrol plan in addition to one of the above options.

PROS: - Places the blame back on Congress for allowing immediate petroleum price increases.

- It is a gradual decontrol program, with slight economic impacts.

CONS: - Will lead to some confusion as to the Administration's true position because you are now supporting immediate decontrol.

- Since the 39-month administrative decontrol plan was not accepted by the House, the chance of acceptance is slim and would require even further compromise.

- Under the administrative option, only a yes or no vote could be cast. This plan could and would be greatly modified on the floor.

Recommendation: Suboption C - integrate selected petroleum authorities with standby authorities needed to deal with the natural gas shortage. Do not resubmit the 39-month decontrol plan.

Presidential Decision:

Agree X

Disagree ________

In the event your veto is overridden, there are several administrative options to choose from to continue moving toward decontrol without submitting another plan to Congress. These specific options are being developed now and will be submitted to you later this month.

TIMING AND FOCUS OF PRESIDENTIAL STATEMENT

S.1849 will not reach your desk until late in August. There are several possibilities for a public statement prior to the reconvening of the Congress on September 3 which are outlined below.

Option 1. Public statement just covering the decontrol issue and the rescinding of the import fees on crude and products this week.

PROS:
- The timing for this message is very good as you present your case to the people and the press early in August.
- It allows you to speak forcefully on the issue during your public engagements throughout the rest of August.
- An early address and specific removal of fees will allow Administration spokesmen the time during August to present your case on the positive energy effects and minimal economic impacts to the Nation.

CONS:
- Will lose the opportunity to compromise on the $2 import fee just before Congress reconvenes which may lose impact on Congress to sustain the veto.
- There is not adequate staff time to adequately brief all interest groups or prepare specific options for your decision on windfall profit taxes, rebates, or the form of your legislative proposals.
- By giving up the fees now, you will lose your opportunity to give them up later when OPEC raises world prices.

Option 2. Presidential message to be given during your vacation either at Vail or at one of your public speaking engagements during mid-August.

PROS:
- Gives you and Administration officials more time to prepare for a speech.
- Still leaves adequate time for Administration spokesmen to reinforce message during August.

CONS:
- Neither Vail nor any one of your other public engagements is the best setting since they involve either your vacation or political fund raising events.
- Delay until mid-August may give the impression of indecision on your part.

Option 3. A broad Presidential message after you return from Vail after August 25 but before September 3 when Congress reconvenes. Such an energy policy speech would include your position on decontrol but could also include the following major policy issues now under review in ERC and scheduled for your decision prior to the end of August.

- The Energy Resources Finance Corporation (ERFCO).
- Implementation of the synthetic fuels goal announced in your State of the Union Message.
- A much expanded voluntary energy conservation effort.
- A comprehensive plan for dealing with the winter natural gas shortage.

Recommendation: A broad Presidential television message after your return from Vail and before the Congress reconvenes on September 3. Have Frank Zarb and Alan Greenspan inform the press of your decision to veto the simple extension and if the veto is sustained to immediately remove the $2 import fees. This will allow Presidential spokesmen and yourself to speak forceably during August while still getting maximum press impact in early September with a major energy policy speech.

Presidential Decision:

Agree ____________

Disagree ________

TAB B

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

August 6, 1975

MEMORANDUM FOR THE PRESIDENT

THRU: Rogers C. B. Morton

FROM: Frank G. Zarb FGZ

SUBJECT: Natural Gas Shortages

BACKGROUND

At your direction, the Energy Resources Council formed an interagency task force, directed by the Federal Energy Administration, to assess the magnitude of the upcoming natural gas shortage, its potential and likely economic impacts, and to recommend action to mitigate the problem.

This is a vital issue which affects our entire economy and we will continue to improve our analyses of the shortage and impacts, as well as provide further policy recommendations throughout the summer and fall.

The remainder of this memorandum summarizes our findings and recommendations. The attachment provides more details on the shortage, its economic impact and the policy recommendations.

THE SHORTAGE

- The natural gas shortage has been growing rapidly.

  ° In 1970, curtailments were 0.1 Tcf or less than 1 percent of consumption. Last year curtailments were up to 2.0 Tcf or 10% of total demand (see Figure 1).

  ° For 1975 they are forecast to increase by 45% to 2.9 Tcf (about 15 percent of demand).

- The shortage is most severe in the winter.

  ° This winter curtailments will be 1.3 Tcf, up from 1.0 Tcf last winter. This lower than expected increase is due to the lag in demand growth as the economy begins its upswing.

  ° A very cold winter (once every 10 years) would raise the shortage to about 1.45 Tcf.

- Even with natural gas deregulation, which is our primary long term policy objective, shortages can be expected to grow in each succeeding winter for several years and could approach 1.9 Tcf in the 1976/1977 heating season.

ECONOMIC IMPACT THIS WINTER

- Because of the economic slowdown and much higher prices, no shortage and possibly a surplus exists in the intrastate markets, primarily Louisiana, Texas, and Oklahoma.

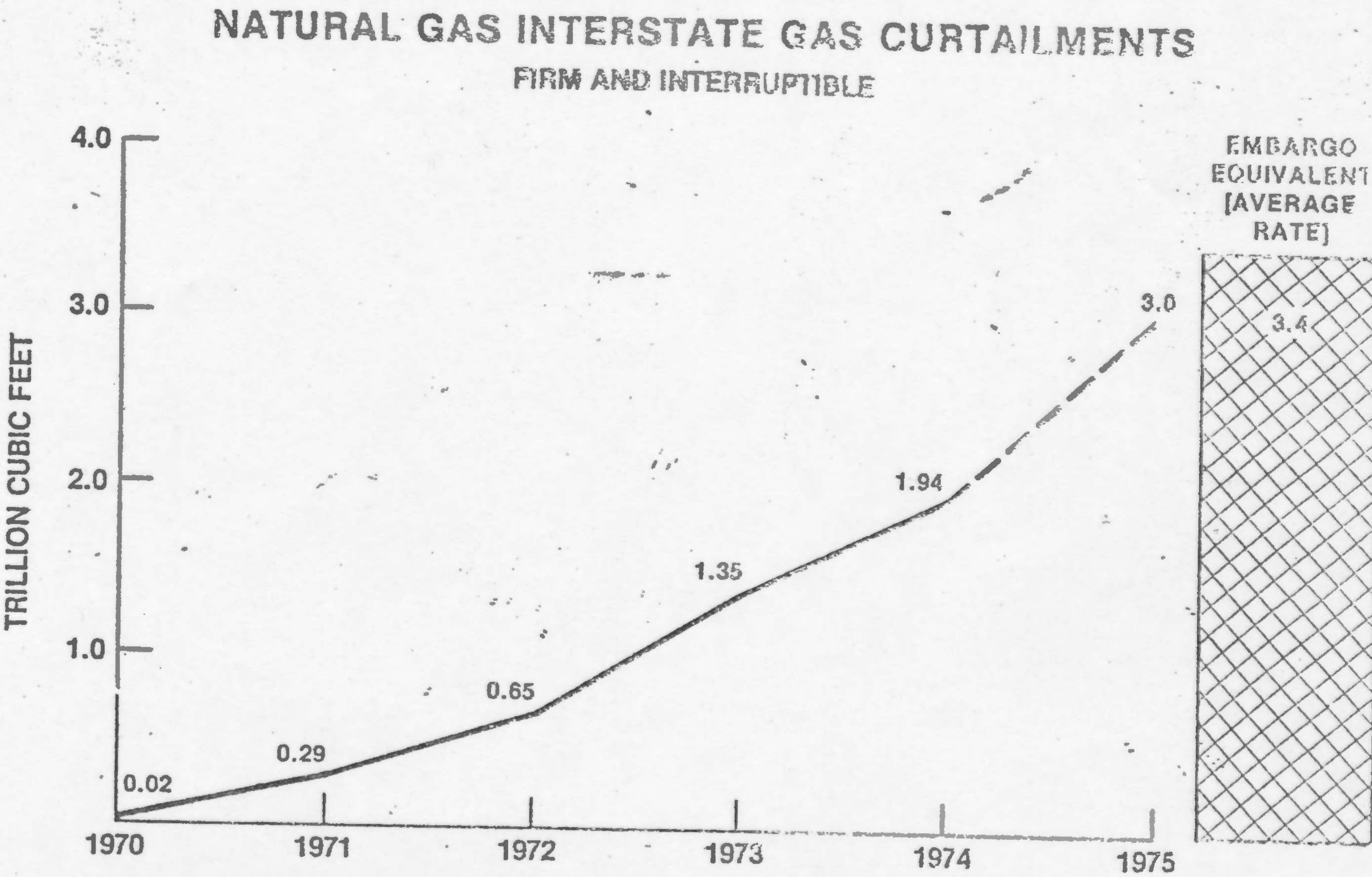
- Economic impacts last winter were very scattered and not significant nationwide. This was due to:

  ° Alternate fuels were available and many gas consumers switched to propane and oil.

  ° The economic slowdown and mild weather reduced demand.

  ° Conservation programs were implemented in some local areas.

  ° Some emergency natural gas deliveries were allowed under existing FPC authorities.



PRELIMINARY ESTIMATES FOR WINTER SEASON OF 1975-1976 INDICATE SHORTAGES AT AN ANNUAL RATE OF 15-25% [3-5 TCF]

- To the extent there were economic impacts, they were localized mainly in eastern and midwestern states.

- This coming winter the shortage will increase by about 0.3 Tcf and this is probably the most accurate measure of economic impact.

- This shortage is likely to be focused in about 15 states on the mid-Atlantic coast (from New York to Georgia) and the Midwest (including Ohio, Missouri, Indiana, and the farm belt), along with California.

  ° Table 1 shows the potential economic impact in the most affected states. As indicated in this Table, the shortage in these ten states accounts for more than half the national total.

  ° Local communities within these states are likely to feel an even greater impact where a factory, which is a major employer, may be forced to shut down or reduce output.

- The economic impact could be magnified many fold by a concurrent Arab embargo, as alternate fuels would be unavailable.

<u>POLICY GUIDELINES</u>

- Policy recommendations should at least cover the incremental shortage. However, because it will be growing in successive years and given the uncertain rate of economic recovery, the weather or Congressional response, actions to deal with the total shortage should be proposed.

- Recommending a comprehensive program will:

  ° Put the President in the most desirable public position, even if we can scrape through with less than is requested of the Congress.

  ° Take account of long legislative lead times for succeeding winters.

  ° Reduce downside problems in the event of a simultaneous embargo.

- Specific policy recommendations should:

  - ° Reduce demand and increase supply by national actions to alleviate the shortage to the extent practicable.

  - ° Avoid a nationwide Federal allocation program, except in the event of an oil embargo.

  - ° Take national action to assure that available supplies can move among customers and from intrastate to interstate markets.

  - ° Set up effective Federal/State mechanisms to deal with the local problems -- primarily by State and local officials.

POLICY RECOMMENDATIONS

There are no decisions required at this time since your advisers agree on the broad administrative, legislative and tax initiatives we should take. Their impact is summarized in the table below.

Impact of Recommended Program

	Savings Winter 1975/76 (Bcf)
Administrative	210
Legislative	375
Tax	600
Total	1185

- At your direction the executive branch agencies will implement the following administrative actions:

Action	Agency
° Establish an intensive and immediate energy conservation public education program to reduce inefficient uses of natural gas.	FEA

Action	Agency
° Complete hearings and approval process for new pipelines to transport interstate gas.	FPC
° Exhort gas producers to increase production from shut-in wells.	FEA
° Alter practices and priorities of natural gas use in utilities.	FPC; FEA
° Increased emergency use of stored gas as a result of FPC hearing conclusions.	FPC

- We are now drafting a Natural Gas Emergency Standby Act of 1975 to be submitted to the Congress upon its return containing the following provisions:

Titles	Agency
° Permit interstate pipelines to purchase gas from the intrastate market on an emergency 180 day basis at current market prices.	FPC
° Allow end-user purchases of uncommitted gas from the intrastate market at current market prices.	FPC
° Provide temporary standby authority to allocate natural gas between interstate pipelines as well as intrastate pipelines in the event of an embargo or similar emergency.	FEA; FPC
° Provide temporary authority to place a Federal moratorium, if needed, on all new residential, commercial, and utility connections of natural gas.	FEA; FPC
° Provide temporary authority to mandate electric utility and industrial boiler use conversion from gas to oil or coal.	FEA

Titles	Agency
° Provide temporary authority to ban use of natural gas for ornamental lighting.	FEA
° Provide authority to permit curtailed gas customers to purchase gas from uncurtailed gas customers at uncontrolled prices.	FPC

- In addition, FEA will continue as the lead agency to deal with natural gas contingency planning and, along with the Federal Power Commission, will convene a meeting with the Governors and key energy advisors in the most affected states in late August. At this meeting with the Governors, the magnitude of the problem, and potential Federal and local actions to mitigate the impacts will be discussed.

- The Administration will continue to press for an excise tax on natural gas use and insulation tax credits that were previously proposed in your State of the Union Message.

TABLE 1
ECONOMIC IMPACT IN MOST AFFECTED STATES

State	1974/75 Deliveries (Bcf)	1975/76 Reduction (Bcf)	1975/76 Reduction (%)	Reduction As % of 1973 Industrial Gas Consumption	% of State Employment In Natural Gas Using Industries	Total Gas Using State Industry Employment (In Thousands)
New Jersey	263	32	12%	41%	32%	717
Maryland	171	33	19	60	20	202
Virginia	134	27	20	50	9	116
North Carolina	134	39	29	41	33	552
South Carolina	123	17	14	20	29	227
Pennsylvania	723	60	8	17	23	854
Ohio	1072	98	9	22	29	996
New York	603	(4)	(1)	(3)	21	1249
Missouri	375	37	10	31	18	249
Iowa	169	29	17	22	14	101
Total (10 States)	3767	368				
% of U.S.	33%	54%				

NATURAL GAS ASSESSMENT

SHORTAGE

The natural gas shortage has been growing at an alarming rate in recent years. Demand for natural gas has steadily increased because of its clean-burning properties, low-cost, and until recently, accessibility. It is consumed by over 40 million residences, 3.4 million commercial establishments, and over 200,000 industrial users. While demand has increased, proved reserves have declined since 1967 and production peaked in 1973. The decline in production of 1.3 Tcf in 1974 is equivalent to over 230 million barrels of oil. Further, the regulated price in the interstate market (51 cents per thousand cubic feet) has resulted in a growing market share for the intrastate market where prices are unregulated (market share has shifted about 5 percent since 1970).

As demand increased and supply declined, shortages began to develop. In 1970, for the first time, interstate pipelines curtailed some of their customers. Curtailments (generally defined as requirements less deliveries) grew from 0.1 trillion cubic feet (Tcf) in the 1970/71 season (April-March) to 2.0 Tcf in 1974/75, as shown below:

TABLE 1
CURTAILMENT TRENDS

Year (April-March)	Annual Firm 1/ Curtailments (Tcf)	Heating Season (Nov.-Mar.) Curtailments (Tcf)
1970/71	0.1	0.1
1971/72	0.5	0.2
1972/73	1.1	0.5
1973/74	1.6	0.6
1974/75	2.0	1.0
1975/76 (expected)	2.9	1.3
1976/77 (forecast)	about 4.0	about 1.9

Even with natural gas deregulation, shortages are expected to grow in each succeeding winter for the next several years, although at a much slower rate than without deregulation.

The shortage was also felt in the intrastate market and curtailments were experienced in several producing states (e.g., Louisiana). In the last year, however, the increase in intrastate prices, economic slowdown, reduced refinery runs (many refineries use natural gas as fuel) and conservation have relieved the intrastate shortage and resulted in a temporary surplus. The major producing states are Texas, Louisiana, Oklahoma, California, New Mexico, and Kansas.

1/ Pipeline to pipeline curtailments not included in 1974-1976 data.

While curtailments are normally used to measure the shortage, the most appropriate and consistent measure of the problem we face this year is the reduction in deliveries this year over last year, plus any increase in demand. Deliveries are expected to decline this winter by about 350 billion cubic feet (Bcf), but demand is also expected to decline. Even assuming a normal winter the economic recovery will not be rapid enough to increase natural gas demand over last winter. With a normal winter, demand will be about 125 Bcf less than last winter; with a cold winter, it will be about level. Thus, the incremental shortage in this heating season over last year will be almost 250 Bcf.

ECONOMIC IMPACT

Natural gas shortages are distributed unevenly. Within one region or state, some areas may have adequate supplies while other areas are being severely curtailed, because the shortage depends upon a particular pipeline's supply situation. Although the average interstate pipeline reports curtailments of 19 percent of demand, some pipelines will have to curtail almost half their requirements. National macroeconomic estimates of the impacts of the shortage tend to understate its severity. Thus, rather than try to predict impacts on a national level, the task force has concentrated on the local areas most likely to be affected.

Last year, very little unemployment or plant shutdowns occurred as a result of natural gas unavailability. Most plant closings occurred because of the recession and many shutdowns were avoided by availability of alternate fuels (propane, butane, distillate or residual oil), emergency diversion of natural gas, mild weather or conservation. There were scattered examples of plant closings during the heating season in Virginia, North Carolina, New Jersey and other states, but in general, almost everybody was able to squeak through.

As a result of the analysis of last year's impacts, it is apparent that the major policy actions should concentrate on reducing the additional shortage expected in this heating season, maintaining the availability of alternate fuels, and preparing for even greater shortages next year.

The areas likely to experience the greatest economic impact this winter are the mid-Atlantic states stretching from Southern New York to Georgia and several midwestern states, such as Ohio, West Virginia, Kentucky, Missouri, Illinois, Iowa, and Nebraska. California, which used over 1.5 Tcf last year could also experience substantial impacts.

In North Carolina, which is probably the most severely impacted state and is served primarily by the heavily curtailed Transcontinental Pipeline Co. (Transco), it is estimated that about two-thirds of the industrial customers will be cut off from natural gas. Most of these firms -- primarily textile, chemical, and glass -- do not have alternate fuel capability. In New Jersey, which is also heavily curtailed by Transco, the northern part of the state is relatively free of curtailments, while Southern New Jersey's chemical industries may be affected. Ohio's industrial curtailments could reach 60 percent, but most impacts will be experienced by smaller stone, clay, and glass industries in the central part of the state. Even in states that are not as short of gas, such as Indiana, a utility serving 50 small towns each with only one industry may have to shut down one-third of these plants.

In some communities the impacts could be especially severe. In Danville, Virginia last year, concerted action by local government officials, industry, and residential gas users avoided the shutdown of four major manufacturing plants (Dan River Textiles, Corning Glass Works, Goodyear Tire and Rubber's largest truck and airplane tire facility, and U.S. Gypsum) employing over 10,000 of the area's 50,000 residents. A massive public education media campaign and conversions to alternate fuels by a local hospital saved almost 15 percent of the city's heating requirements in about half the winter.

Since residential and commercial users receive first priority under Federal Power Commission guidelines, natural gas curtailments generally affect industry most. In particular, industries which cannot switch to alternate fuels or are not prepared to switch (such as chemicals, motor vehicle parts, textiles, fertilizer, and glass) may experience considerable impacts. Even when alternate fuels are available, their use will increase costs and will put some companies at a competitive disadvantage with companies in other states that are not experiencing curtailments.

As indicated in Table 2, more than half the reductions in deliveries will occur in ten states. In some of these states, the reduction in deliveries will be more than half the 1973 industrial gas consumption. Also, in some states, about one-third of industrial employment is in industries that use natural gas. Nevertheless, it should be recognized that availability of alternate fuels can substantially reduce the unemployment effects, but the accompanying higher priced fuel may result in economic problems.

TABLE 2
ECONOMIC IMPACT IN MOST AFFECTED STATES

State	1974/75 Deliveries (Bcf)	1975/76 Reduction (Bcf)	1975/76 Reduction (%)	Reduction As % of 1973 Industrial Gas Consumption	% of State Employment In Natural Gas Using Industries	Total Gas Using State Industry Employment (In Thousands)
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Missouri	375	37	10	31	18	249
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Total (10 States)	3767	368				
% of U.S.	33%	54%				

POLICY RECOMMENDATIONS

A wide range of potential Federal and local government policy actions has been reviewed. Every conceivable alternative was evaluated for its feasibility, possible energy and economic impact, ease of implementation, legislative requirements, and timing of effects.

The policy options have been evaluated with the following basic guidelines:

- The intrastate market is likely to be saturated and some surplus gas may be available.

- The major problems to be solved now are a national shortage of 250-400 Bcf above last winter and several localized situations.

- Policy recommendations should try to accomplish more than the incremental shortage over last year, since weather could be severe, economic recovery could be more rapid than expected, and implementing these actions may take some time.

- There are a number of actions that must be taken to begin solving next year's growing problem.

- Federal policies should attempt to bring the national shortage to a manageable level, while providing assistance to state and local governments in solving their particular problems.

- We should ask for more than is really needed to manage the problem so that the Executive Branch can be postured as dealing fully with the shortage and to prepare for any unexpected events, such as an oil embargo.

- Recommend all actions that are good public policy even if they have greater impact than required, then proceed to add measures that are needed to deal with local problems.

- Natural gas allocation programs should be avoided except in the event of an oil embargo.

The recommended administrative and legislative policies shown in Table 3 can reduce this year's shortage by about 1.2 Tcf if the 37¢/mcf excise tax were enacted and by about 0.6 Tcf without the excise tax. The administrative actions save slightly less (about 210 Bcf) than the incremental shortage over last winter, but augmented by the legislative actions could relieve almost the entire shortage. These are Federal policy actions which make sense to initiate, can be implemented this year, and can reduce the shortage to a level below that of last year. These measures allow the marketplace to allocate supply to the maximum extent possible and contain few negative features. Consumer groups, however, are likely to claim that purchase of gas in the intrastate market for shipment via interstate pipelines is a backhand way of achieving deregulation of gas prices.

Some of the legislative authorities are needed on a standby basis or to cope with an even larger shortage next year. These actions involve a larger use of regulatory powers to conserve or allocate natural gas supplies. The greatest potential relief of the natural gas problem in the next few years could be achieved through forced conversions of powerplant and industrial boiler use of natural gas. About one-third of gas consumption continues to be used in the generation of steam (about 6 Tcf), mostly in the Southwest. With gas more plentiful in these areas because of higher prices, there have been few curtailments and little incentive to switch to oil or coal. Further, environmental restrictions and the capital cost to convert have deterred such shifts. Although mandatory conversions and moratoriums on new residential or commercial connections may be desirable public policy, it should be recognized that these actions will have considerable cost and would represent Federal intrusion into private decisions at the local level.

The allocation of natural gas has considerable allure on the surface. By allocating about 330 Bcf, the curtailment on almost every pipeline could be reduced to 25 percent. However, allocation presents several problems:

TABLE 3

POLICY RECOMMENDATIONS

ACTION	AGENCY	THIS WINTER'S EXPECTED GAS SAVINGS (Bcf)
ADMINISTRATIVE:		
° Expedite new pipelines	FPC	40
° Intensive public education program to reduce inefficient gas use	FEA	65
° Exhort production from shut-in wells	FEA	5
° Alter utility practices	FPC/FEA	50
° Increased emergency use of stored gas	FPC	50
LEGISLATIVE:		
° Stimulate and allocate propane	FEA	50
° Allow end-user gas purchases	FPC	75
° Allow 180 day emergency pipeline gas	FPC	250
° Standby allocation authorities	FPC	
° Permit swaps among end-users	FPC	
° Mandatory boiler use conversions	FEA	Minimal
° Moratorium on new residential, commercial, and utility gas connections	FPC	Minimal
° Ban on ornamental lighting	FEA	Minimal
PREVIOUSLY RECOMMENDED:		
° Natural gas deregulation	FPC	Minimal
° Insulation tax credits	Treasury	Minimal
° Excise tax on natural gas use	Treasury	600

- It represents a bail-out for poor planning in some areas and involves taking away gas from some pipelines which have previously managed to avoid substantial curtailments

- By removing gas from an area that had not experienced curtailments, economic problems could be created since users who would now be curtailed may not be at all prepared for such shortages and may not be able to secure or use alternate fuels. These problems may be larger than those being solved in the areas receiving allocated gas.

- Once the framework for an allocation system is in place, there is tremendous pressure to utilize it and special interests are built-up.

- The data base needed to allocate effectively is not yet available.

- Pipeline interconnections to support reallocations may not always be readily available.

Despite the cautions about allocation, such authorities may be desirable to deal with local emergencies and may be needed in the event of an oil embargo. If an embargo were to occur, the alternate fuels would be in extremely short supply, and the available gas will need to be allocated.

Some of the actions being proposed for next year could have an impact before the end of this year's heating season. Anything that can stimulate purchase and installation of insulation can reduce heating requirements and make more gas available for essential industrial use. Further, although most supply enhancement activities will take time to implement, some could pay off in 1976-1977.

The uneven distribution of natural gas shortages means that some states or local areas will experience adverse economic impacts while others will have no problem if these Federal actions are implemented. Rather than a Federal regulatory approach to solve these problems, it is suggested that local governments receive Federal guidance, but try to help themselves. It is recommended that the governors of the most severely impacted states and their energy advisers be invited to Washington to meet with FEA and FPC and be given a thorough briefing of the expected problem and that a discussion of policies be carried out. A number of suggested local actions could be discussed at this meeting, including:

- The Federal government will provide each state with its entire data base concerning expected shortages and their impacts; monitor changes in supply, demand, and alternate fuels; and provide technical assistance to the states to help manage the problem.

- Intensive conservation programs for boiler use of natural gas, residential, and commercial users, including case histories of residential-industry cooperation. Boiler fuel use represents over 1/3 of the natural gas market.

- Use of surcharges for consumption above a certain base level used last year, along with rebates for consumption much less than last year. For example, there could be a 100 percent surcharge for consumption above 90 percent of last year's residential use, with some rebates for consumption below 80 percent of last year.

- Application of a voluntary "buy-back" procedure, in which pipelines buy back gas from users with alternate fuel capability at a price equal to the price of the alternate fuel (over $2.00 per mcf) and then sell the gas at the higher price to users without alternate fuel capability. This could be implemented by a state public utility commission.

- Greater use of peak load pricing to reduce peak consumption of electricity, which is often generated by natural gas.

In considering these recommended policy actions, a number of other alternatives were examined and rejected for a variety of reasons. A list of these options is given in Table 4.

TIMING OF ACTIONS

It is recommended that the following sequence of events take place by the time the Congress returns:

- Announce immediate implementation of administrative actions.

- Designate FEA as the lead Federal agency to deal with natural gas contingency planning and implementation.

TABLE 4

OPTIONS ELIMINATED FROM CONSIDERATION

Options	Reason for Elimination
Increase LNG imports from Algeria	There are no actions which can be taken by the government to increase LNG imports for the 75-76 winter heating season.
Negotiate increased imports from Mexico and Canada	There is little potential for increased imports from these countries.
Accept payment in-kind for production from federal lands and allocate to interstate pipelines most in need	Most royalty gas is presently sold to pipelines experiencing curtailments
Increase production from offshore shut-in wells	There is no way to significantly increase production from shut-in wells for the 75-76 winter through a regulatory approach.
Increase LNG imports from Alaska	Potential is too small (3-6 Bcf) in comparison to the expected opposition of the required legislation
Increase domestic production through in-field drilling in the Blanco-Mesaverde gas fields	Small potential per added drilling rig, and extreme difficulties in obtaining required drilling rigs
Increase production of the Hugoton gas field through override of Kansas gas production rules	Lead times for new compressors are too long, even if override of Kansas production rules could be obtained
Define and prohibit non-essential uses of natural gas consumed on-site by end-users in the residential and commercial sectors	Safe elimination of pilot lights would require excessive lead times and requires further analysis

- Invite Governors of most impacted states to a White House meeting in early September to discuss expected shortages and possible local measures to reduce its impacts.

- Submit legislative package to the Congress in early September containing immediate, standby, and longer-term measures.

The recommended actions, both immediate and standby could substantially reduce the impact of shortages and would be supplemented by existing emergency relief procedures.

THE WHITE HOUSE
WASHINGTON

For your 3 o'clock mtg.

FEDERAL ENERGY ADMINISTRATION
Office of the General Counsel

AUG 08 1975

TO: PHILIP BUCHEN
MIKE DUVAL

FROM: ROBERT E. MONTGOMERY, JR. REM

Attached is the draft Issue Paper on the "jaw-boning" question that I promised you.

Attachment

VOLUNTARY INDUSTRY COOPERATION

TO ACHIEVE PHASED DECONTROL

ISSUE

Assuming that the President intends to veto S. 1849, should he--either personally or through FEA--attempt to obtain the industry's voluntary cooperation with regard to: (1) a gradual phase-in of crude oil price increases; and/or (2) the exercise of restraint in taking certain other marketing actions which might appear immediately attractive--particularly to the major integrated companies--in an uncontrolled situation.

DISCUSSION

Objectives:

Depending upon its thrust and manner of implementation, such a "jaw-boning" strategy might be adopted with either or both of the following objectives in mind:

I. To cushion the impact of decontrol:

A. -- on the economy as a whole, by preventing an immediate and significant upward surge in the price of gasoline and other petroleum products.

B. -- on particularly vulnerable sectors of the industry (e.g., independent marketers) or consuming public (e.g., small propane users), by persuading the industry to insure that these sectors are adequately supplied at reasonable prices.

II. To improve our chances of sustaining the veto:

A. -- by convincing the public, the media and the Congress that the Administration had obtained a reliable voluntary commitment from the industry to increase prices only on a gradual basis--thus, rendering the extension of controls unnecessary.

B. -- by encouraging the major integrated companies that to do everything in their power between now and the date Congress votes on the question to reassure those groups most likely to lobby vigorously for an extension of controls (i.e., their major customers, their independent marketers, and their smaller competitors) that the termination of controls will not lead to major supplier actions which would endanger the financial security or market position of any such group.

Problems:

The potential problems with such a "jaw-boning" effort are these:

1. To be effective, any restraint on prices would have to be imposed on crude oil sales at the wellhead. Any attempt to restrain prices only downstream at the refinery or marketing levels would produce an unacceptable squeeze on some refiners and marketers. While the majors probably control more than half of our domestic production of old oil, a substantial volume is produced and sold by thousands of independent producers. No effort to "jaw-bone" the industry as regards crude prices, therefore, could be more than partially successful--even if the majors cooperated fully. In addition, the majors would themselves be seriously inhibited in giving their support to a price restraint effort by their possible financial liability to royalty owners, other parties having interests in fields which they operate or from which they purchase, and perhaps their own stockholders.

2. To the extent that some form of voluntary price restraint could actually be achieved, a two-tier crude price system would be maintained; yet because of the expiration of the allocation act, FEA would

lack the authority to continue its entitlements program. The result would be a scramble among refiners for the lower priced crude, with the winners in a position to choose between exploiting their cost advantage to achieve wider markets, or collecting windfall profits at the refinery or marketing levels through sales of product at the higher prices being charged by those refiners running high-cost crude.

3. Any attempt by the President to obtain voluntary industry cooperation with a specific decontrol schedule would be vigorously opposed by the guardians of the antitrust laws, and probably resisted by the industry on grounds that its participation would expose it to unacceptable liabilities in civil antitrust lawsuits initiated by private parties. In this regard, the maximum assurance we could give the industry is that the Department of Justice, and perhaps the Federal Trade Commission, would refrain from prosecuting--we could not confer immunity from private actions. (See attached memoranda by Rod Hills and Tom Kauper.)

4. If the initiative were made by the President himself or otherwise achieved significant visibility in the media, it could be cited as evidence that the Administration considers the problems associated with decontrol to be much more severe than it is willing to admit--thus actually lessening our chances of sustaining the veto.

5. Furthermore, if such a visible "jaw-boning" initiative were undertaken, and the veto were sustained, we would have created expectations regarding the rate at which retail petroleum prices would increase which--given the substantial time period involved and the many uncertainties such as OPEC's plans--might well prove to be unwarranted. The Administration's reliance upon a voluntary approach would then be subject to continuing ridicule by our political opponents as being--at best--naive, and--at worst--consciously deceptive.

Conclusions:

The problems associated with any effort to achieve phased decontrol through the industry's voluntary cooperation are substantial, and these problems increase as the "jaw-boning" initiative becomes more specific and more highly visible. On balance, it seems likely that any Presidential initiative along these lines would prove counter-productive, both in terms of the veto override vote and the President's subsequent political vulnerability. On the other hand, the importance of preventing unnecessary rapid price increases and other disruptive marketing actions, and the fact that voluntary restraint in these areas is clearly in the industry's own interest, strongly suggest that a low-key, minimum public visibility effort should be made to obtain industry cooperation. If such an initiative were couched in general terms and focused primarily on non-price issues, it would minimize antitrust risks, would not create unreasonable expectations for price stability over the long term, and would not open the door to the charge that we were actually more concerned about the impact of decontrol than we had publicly admitted.

RECOMMENDATION

We therefore recommend that a low-visibility effort be made to obtain voluntary industry cooperation in exercising restraint with regard to the transition to an uncontrolled situation. This approach can best be handled by FEA, should be undertaken immediately, and should focus on the following specific points:

1. Moderation of immediate increases in crude oil and product prices.

2. Reasonable continuity in maintaining traditional supply arrangements.

3. Sensitivity to the special supply and marketing problems of independent refiners and marketers.

4. Particular caution to avoid speculative brokering or diversion to non-traditional users of large quantities of potentially scarce products such as propane.

Attachments

ASSISTANT ATTORNEY GENERAL
ANTITRUST DIVISION

Department of Justice

Washington, D.C. 20530

AUG 1 1975

MEMORANDUM FOR: Rod Hills
Counsel to the President

SUBJECT: Antitrust Implications of Presidential Meeting with Representatives of Various Oil Companies

If existing price controls on oil should be allowed to lapse, it is contemplated that the President may want to meet with representatives of various oil companies to urge them to exercise restraint in their pricing decisions. You have asked me to briefly appraise you of the potential antitrust implications of any such meetings.

Should any meeting with various oil company representatives result in an agreement among the oil companies not to change their prices or to limit their price increases in any specified manner, such agreements would constitute clear violations of the antitrust laws. Potential antitrust liability, however, is not limited solely to situations in which the oil companies might explicitly agree on prices at the urging of the President. Should representatives of the oil companies discuss oil price changes at such a meeting and subsequently adopt uniform pricing decisions, there is existing case law which would allow a jury to infer that the subsequent uniform pricing action was the result of an implicit agreement based upon the prior price discussions. See e.g., Esco Corp. v. United States, 340 F.2d 100 (9th Cir. 1965).

The President could confer antitrust immunity by promoting a voluntary agreement among the oil companies pursuant to the provisions of the Defense Production Act of 1950, which requires a Presidential finding that such an agreement is in the public interest as contributing to the national defense. However, unless he utilizes the procedures of the Defense Production Act we are unaware of any manner by which the President could confer an antitrust exemption covering pricing agreements among the oil companies.

The litigation involving the voluntary steel import reductions indicates that there is some question as to whether the President can exempt parties from the application of the antitrust laws when he is attempting to exercise his diplomatic or foreign affairs powers. Consumers Union v. Rogers, 352 F. Supp. 1319 (D.D.C. 1973), vacated in part and affirmed in part, 506 F.2d 136 (D.C. Cir. 1974); cert. denied, 43 U.S.L.W. 3636 (June 3, 1975). There is no case which directly considers the President's power to confer an antitrust exemption, without statutory authorization, in order to achieve a goal serving the domestic public interest. However, in United States v. Socony-Vacuum Oil Co., 310 U.S. 150 at 225-227 (1940) the Supreme Court held that the fact that the defendants may have been encouraged to engage in price stabilization activities by officials in the executive branch of the government was insufficient to exempt the defendants from the antitrust laws. The Court held that since Congress had created the prohibitions contained in the antitrust laws, an exemption could be obtained only pursuant to statutory procedures provided by Congress. The Supreme Court's reasoning seems applicable to the situation under consideration.

In conclusion, it is important to note that even if the Department of Justice utilized its prosecutorial discretion and refrained from bringing suit against concerted pricing engaged in at the behest of the President, Congress has provided a private right of action to enforce the antitrust laws. As a result, any oil companies which participated in concerted pricing decisions at the behest of the President would be subject to private treble damage suits by consumers of their products.

Thomas E. Kauper

THOMAS E. KAUPER
Assistant Attorney General
Antitrust Division

Dear

The President would appreciate it if you could attend a meeting at the White House on , 1975 at A.M. At that time he proposes to discuss with the Chief Executive Officers of various oil companies the potential economic and social implications of the termination of price controls on petroleum products.

Let me assure you that the President is aware of the restrictions placed upon concerted pricing decisions by the antitrust laws. He is also cognizant of the fact that discussion of prices by competitors may be deemed evidence from which an agreement violative of the antitrust laws may be inferred. Consequently, it is not contemplated that there will be any discussion at the meeting by oil company representatives of price levels or changes. Nor is it contemplated that any subsequent joint discussions be engaged in by the oil companies as to pricing changes. Rather, the President intends to urge each of the oil companies, in making their unilateral decisions, to consider the various national interest ramifications of their company's pricing decisions.

We hope that you will be able to attend this meeting relating to a matter of such national importance.

Sincerely,

Dear

The President would appreciate it if you could meet with him at the White House on , 1975 at a.m. He wishes to discuss with you personally the potential economic and social implications of the termination of price controls on petroleum products. It is the President's intention to discuss these matters on an individual basis with a number of the Chief Executive Officers of the major petroleum companies.

The President is aware of the restrictions placed upon concerted pricing decisions by the antitrust laws. Therefore, you can be assured that he will not urge, or even suggest, that your company agree, or even discuss its petroleum pricing decisions, with any competitor. Rather, the President intends to urge each of the oil companies, in making their unilateral decisions, to consider the various national interest ramifications of their company's pricing decisions.

We hope that you will be able to meet with the President on this matter of significant national importance.

Sincerely,

THE WHITE HOUSE

WASHINGTON

August 1, 1975

MEMORANDUM FOR: PHILIP BUCHEN

FROM: RODERICK HILLS R. H.

SUBJECT: Proposed Meeting Between the President and Representatives of the Oil Industry

A meeting between the President and oil industry representatives raises issues which must be dealt with before the meeting occurs. Simply stated, they are:

(1) Who is to be invited? Presumably, the proposal is to invite the chief executive officers of the so-called major oil companies. Such companies have a dual role as owners of controlled oil and refineries. As owners of controlled oil they can be "jawboned" not to raise the prices of the controlled oil. However, as owners of refineries, they cannot be asked after controls end to agree not to pay higher prices for oil from other sellers. An agreement between owners of refineries to not buy de-controlled oil except at a low price is just as violative of the antitrust laws as an agreement to sell it at a higher price.

(2) What is to be discussed? Any discussion at a meeting between the President and the major oil company representatives could expose the companies to antitrust problems. If, for example, the President were to say that (a) great restraint should be exercised in raising the price of de-controlled oil, and (b) ask them to voluntarily phase in the increase over a period of 39 months, and (c) if there were any ensuing discussion which indicated a consensus on these points, there would essentially be an agreement between the majors that they will raise their prices over 39 months and there are, of course, plenty of plaintiffs willing to sue the oil companies

for such an agreement. If the meeting were private, there would be all the more chance of misunderstanding the nature of the discussion.

The alternatives to a meeting between the President and representatives of the major oil companies are:

(1) A public meeting between the President and representatives of all the companies;

(2) Individual meetings between the President and each of the oil companies; and

(3) A strong letter to each company (Tab A) followed by individual meetings between these representatives and the President or Frank Zarb.

On balance, given the risks of a joint meeting in private and the disagreeable aspects of a joint meeting in public, I suggest that options (2) and (3) are preferable. The invitation to private meetings to each of the oil companies should be made public. The letter should state that the purpose of the meeting is to attempt to persuade each of the companies that they should voluntarily refrain from raising the prices on de-controlled oil any faster than 39 months. The letter would, of course, emphasize the point that they should take all steps possible to keep the prices down, but to the extent that they do rise, it should be no greater than the formula set forth in his proposed legislation recently defeated. See Tab A.

These individual meetings with the major oil companies could be supplemented by personal letters to the larger independent producers throughout the country.

There is, of course, one further alternative: to avoid any meetings between the President and the oil companies, but instead to write a personal letter to each of them.

If either option 2 or 3 is chosen, there should also be a strong Presidential statement, perhaps on television, making the same plea to all producers of oil that is now controlled.

A

SAMPLE LETTER

Dear Mr. Bradshaw:

On _________________, I proposed to the Congress a compromise solution to phased de-control of old domestic oil. I suggested that such oil be subject to a price cap of $11.50 and that existing prices be phased into that cap no faster than a 39 month period. The Congress has defeated this proposal and I am now left with no option but to permit full de-control of such oil as of August 1, 1975.

There are obvious possibilities of economic disruption by moving so swiftly from a controlled price to a de-controlled price. There is also an ~~equal~~ obvious potential of great harm to our fight against inflation if there is any major increase in price in the near future. For that reason, I am strongly urging each owner of oil that is about to be de-controlled to exercise the greatest restraint in raising prices. I am particularly concerned ~~anxious~~ that each such company under no circumstances raise the price at a greater rate than that proposed in the recently defeated legislation. Obviously, any price restraint greater than that in the legislation is also desirable.

In order that I may make my point on this matter in the best fashion, I am asking that you meet with me during the week of ___________________. I am inviting each of the chief executives of the oil companies to similar meetings and I shall be making a public statement to the same effect to all producers.

I look forward to meeting with you.

Sincerely,

Mr. T. F. Bradshaw
President
Atlantic Richfield Company
515 South Flower Street
Los Angeles, California 90071

CLEARANCE FORM FOR PRESIDENTIAL SPEECH MATERIAL

TO: THE PRESIDENT

VIA: ROBERT HARTMANN

FROM: PAUL A. THEIS

SUBJECT: Veto Statement on S. 1849 (oil decontrol)

TIME, DATE AND PLACE OF PRESIDENTIAL USE:

First of next week

SPEECHWRITER: FEA/Pullen

EDITED BY: Theis

BASIC RESEARCH/SPEECH MATERIAL SUPPLIED BY:

FEA

CLEARED BY (Please initial):

(X) OPERATIONS (Rumsfeld)
(X) CONGRESSIONAL/PUBLIC LIAISON (Marsh)
(X) PRESS (Nessen)
(X) LEGAL (Buchen) P.W.B.
(X) ECONOMIC POLICY BOARD (Seidman)
(X) OFFICE OF MANAGEMENT AND BUDGET (Lynn)
(X) DOMESTIC COUNCIL (Cannon)
(X) NATIONAL SECURITY COUNCIL (Scowcroft)
(X) RESEARCH (Waldron)
(X) MARGITA WHITE (FYI)
(X) ENERGY RESOURCES COUNCIL (Zarb)
(X) COUNCIL OF ECONOMIC ADVISERS (Greenspan)
( ) OFFICE OF PUBLIC LIAISON (Baroody)
( )
( )

(FEA/Pullen) PT

September 8, 1975
FourthDraft

PROPOSED PRESIDENTIAL VETO STATEMENT ON OIL PRICE CONTROLS (S. 1849)

I am today vetoing S. 1849, which extends price controls on domestic oil another six months. I am taking this action because:

1. An extension of price controls would further our dangerous and growing reliance on imported oil.

2. It would retard conservation of energy.

3. It would postpone the badly needed development and production of new domestic energy.

4. It would increase the outflow of money and jobs from our economy.

5. It would jeopardize our future economic stability and national security.

6. It would negate the possibility of long range compromise on this problem because of Congressional reluctance to tackle the issue of higher oil prices in an election year.

Since the 1973 embargo, America's bill for imported oil has climbed from just over $3 billion to $25 billion today -- an 800 percent increase. These dollars represent one million jobs lost to American workers. The job security of one million more Americans across the Nation would be the cost of another embargo. We cannot delay longer.

Eight months ago in my State of the Union message, I proposed to the Congress a comprehensive energy program to make the United States independent of foreign oil producers by 1985.

The need for such a program increases with each passing day. The United States is dependent on foreign oil for almost 40 percent of its current needs. If we do not act now to reverse this trend, within 10 years we will import more than 50 percent of the oil we need at prices dictated by others.

The more oil we import, the more dollars and the jobs we lose from our economy. And as American jobs and dollars flow out of the country, so in a sense does our economic and national security.

The 1973 embargo cost more than $15 billion in Gross National Product and threw hundreds of thousands of persons out of work. It dramatically showed our vulnerability. Another disruption would be even more costly in dollars and jobs.

The detailed legislative program I sent to the Congress last winter involved tough measures to put us immediately on the road to energy independence. It would have conserved energy we now use and accelerated development and production of energy here at home.

Because this program would have increased the immediate cost of energy until new supplies were developed, I also proposed tax legislation to prevent undue profit-taking by oil companies and to ensure the return of every dollar collected to the American consumer.

(more)

Since I could not gamble with our Nation's security while waiting for the Congress to act on my comprehensive program, I raised the import fees on each barrel of crude oil in February as an interim measure to reduce imports by inducing conservation and stimulating domestic production.

The Congress still has not acted. Throughout these months, I have compromised again and again to accommodate Congressional requests for more time.

I delayed the second dollar fee on imported oil for 90 days, finally imposing it June 1. I delayed the third dollar indefinitely. Still, we have seen no Congressional action -- on short-term energy proposals.

In my State of the Union last January, I announced a decision to remove the ceiling on price-controlled domestic oil April 1, permitting it to rise from $5.25 per barrel to the free market price. This action would have immediately stimulated production and development of needed additional energy supplies and also encouraged conservation. At the request of Congressional leaders, I postponed such action to give them time to work out a different solution.

After nearly six months without Congressional action on decontrol of any other energy legislation, I proposed in early July a compromise 30-month phased oil decontrol plan. This program represented an effort to meet the concerns raised by many members of Congress and showed the Administration's willingness to compromise. The Congress rejected this plan.

I made another effort to reach a solution before the August Congressional recess. I submitted another decontrol plan, which would have gradually phased out price controls over a 39-month period and placed a price ceiling of $11.50 per barrel on domestic oil.

I believe this final decontrol plan went more than halfway to meet concerns raised by the Congress. Although it would achieve energy conservation objectives more slowly than warranted, I offered it in the spirit of compromise, because action was desperately needed.

Instead, the Congress rejected this attempt at compromise and passed a bill which would simply extend the pricing and allocation authorities for another six months. This proposed action would only ensure the continued growth of our dependence on foreign oil.

I cannot approve six months of delay -- delay which would cost needed jobs and dollars and compound our energy and economic problems.

From my experience in the Congress, I am well aware that it will be easier to pass the tough legislation needed to begin solving the energy problem this year rather than the 1976 election year. The six-month price controls extension contained in the bill I am vetoing would postpone possible action until at least the Spring of 1976 and could delay indefinitely a start on solving this problem.

Despite the last minute attempts by the Democratic leadership, their effort to achieve a compromise in the Congress has failed. It is clear the Congress has not come to grips with the decontrol issue much less the overall energy problem.

We must confront the energy problem before it becomes a national emergency. Our time to act instead of react grows shorter with each delay and each day.

Without price controls on domestic oil, we can reduce dependence upon imported oil by more than 700,000 barrels per day within two years and increase domestic production by nearly one and one-half million barrels per day by 1985. By continuing controls, imports will increase without any incentives to spur domestic production and the energy problem will worsen.

If my veto is sustained and my efforts at further compromise fail, I will take the following actions to ensure an orderly transition from government controls to the free market:

-- I will remove the previously imposed $2 per barrel import fees.

-- I will again press the Congress to enact a windfall profits tax with plow back provisions and to return the money collected to the American consumer.

-- I will propose standby legislation to provide a gradual transition from price controls for small and independent refiners.

-- I will propose legislation to provide authority to allocate liquified petroleum gases, such as propane, to supply these important fuels at reasonable prices to farmers, rural households and curtailed natural gas users.

-- I will seek authority to provide retail service station dealers legal remedies to protect their interests.

The time for debate on oil pricing is over. We have talked and delayed too long. We must act now to protect not only ourselves, but future generations of Americans. I urge the Congress to sustain my veto.

# # #

THE WHITE HOUSE

WASHINGTON

September 8, 1975

MEMORANDUM FOR: PHIL BUCHEN

FROM: PAUL A. THEIS

Attached is the revised draft of the proposed veto message on decontrol of oil prices.

Would you let us have your comments and suggestions as soon as possible?

Thanks.

Attachment