The original documents are located in Box 4, folder: "Testimony, July 28, 1975, House Interstate and Foreign Commerce Committee - Subcommittee on Energy and Power" of the Frank Zarb Papers at the Gerald R. Ford Presidential Library.

STATEMENT

OF

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BEFORE THE

SUBCOMMITTEE ON ENERGY AND POWER

INTERSTATE AND FOREIGN COMMERCE COMMITTEE

U.S. HOUSE OF REPRESENTATIVES

JULY 28, 1975

Mr. Chairman, Members of the Committee: I am pleased to meet with you again to discuss the critical issue of oil decontrol. Exactly two weeks ago, I was here to discuss the President's 30-month decontrol plan. When that plan was disapproved by the House of Representatives last week, the President was faced with a choice: either to veto the proposed extension of price control authority scheduled to expire on August 31, or to seek a further compromise with Congress. The President chose to make a last attempt to achieve accommodation.

When he announced his 39-month decontrol plan, the President stated that the Nation desperately needs cooperation, not confrontation on this critical energy issue. This latest plan is the result of extensive discussions we have had with Members of Congress, including many of the members of this Committee. Legitimate concerns were raised, and the President's plan is a good faith attempt to meet these concerns, while not losing sight of the essential goal we all agreed upon - the absolute necessity of reversing our growing dependence upon foreign oil.

The present plan would decontrol domestic oil over a 39-month period and would roll back present uncontrolled oil prices. This decontrol would be gradual. The amount of oil under controls would be decreased by a fixed percentage per month of a "decontrol base production level" (which is a property's average monthly production of old oil during April, May and June of this year). For the first year, beginning September 1, 1975, the amount decontrolled will be 1.5% per month; for the second year, 2.5% per month; and 3.5% per month for the remaining 15 months of the plan. Thus, the plan would have a limited effect on domestic oil prices in the early phases, with a greater impact being felt in 1977 and 1978.

The President also would establish a ceiling on uncontrolled oil prices at $11.50 a barrel, which represents a rollback from approximately $12.50 a barrel. This $11.50 ceiling would gradually increase, starting in October 1975, by 5¢ per month over the length of the program. The purpose of such a ceiling is to assure that future increases in the prices of imported oil will not dictate the price of our domestic oil.

The $11.50 ceiling would not apply to domestic oil produced from stripper wells - wells producing less than 10 barrels per day - which are now statutorily exempt from price controls.

An essential element of this decontrol plan is a windfall profits tax, with appropriate plowback provisions, which would ensure that this decontrol plan would have a minimal effect on the American consumer and the American economy, while providing the vital incentive for expanding domestic production.

The President also indicated that he would sign a three-month interim extension of the Emergency Petroleum Allocation Act, to permit immediate implementation of the decontrol plan, and to allow time to reach agreement on the modifications which should be incorporated in a longer extension covering the entire 39-month period.

I reiterate what I mentioned before this Subcommittee two weeks ago - gradual decontrol is being proposed to reduce any sudden economic impacts associated with rapid decontrol. This course will allow the Congress additional time in which to enact necessary energy measures while, at the same time, gradually eliminating the economic disincentives caused by the present two-tier price system. While the control is more gradual, the ultimate effect of this plan is the same as the effects of the previous Presidential decontrol proposals. First, the petroleum industry will be given the necessary incentives to increase the production of domestic supplies as oil prices are permitted to rise gradually; secondly, the increased overall price for petroleum products will reduce demand.

The phased decontrol of old oil alone could save us an average of approximately 515,000 barrels of oil imports per day by 1978. Petroleum product prices, such as gasoline, could be expected to increase 5 - 6¢ a gallon by the same year. The impact of the $11.50 cap on domestic oil, which effectively reduced by approximately $1 per barrel the current market price of that oil, could result in an overall decrease in the average product price per gallon by the end of this year. The effect of this phased plan on GNP and unemployment will be negligible if the windfall profits tax and rebates proposed by the Administration are enacted by the Congress.

Mr. Chairman, during my last visit, much was said about the Congress and the Administration coming down to the last mile on this issue. The President has offered reasonable approaches to the concerns raised by Congress, first on January 14, then on July 14, and now on July 25. I believe that we have attempted to bridge the gap between the Congress and the Administration with a program which can result in considerable energy savings, increased domestic production, and eventually the dismantling of a complex and counterproductive set of regulations.

Particularly since the embargo, and even years prior to that crisis, we have been acutely aware that time is not on our side. We must act without further delay. With the expiration of price controls on August 31, coupled with the impending August Congressional recess, I cannot express strongly enough the need for cooperation and compromise on decontrol now. I would hope the Congress would approve the President's decontrol proposal.