PRESIDENTIAL MEETING
C. John Miller
Independent Petroleum
Assoc. of America (30)
JUNE 20, 1975 - FRIDAY
12:45 p.m. - The Oval Office

Miller - Apply Moratorium & windfall to
old oil -
not new oil

P - Free market
Going long term position.
We were not going to change -
great!

THE WHITE HOUSE

WASHINGTON

June 19, 1975

MEETING WITH C. JOHN MILLER, PRESIDENT OF INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

Friday, June 20, 1975
12:45 p.m. (30 minutes)
The Oval Office

From: Jim Cannon JMC

I. PURPOSE

Mr. Miller has asked for this meeting to present to you the views of the independent petroleum producers.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: On March 6, you met with Frank Ikard and Charles Spahr of the American Petroleum Institute, concerning the problems of the majors. On March 25, Senators Dewey Bartlett, Henry Bellmon, John Tower, Carl Curtis, Cliff Hansen, Pete Domenici and Ted Stevens wrote you, asking you to meet with Miller to hear the viewpoint of the independents.

Mr. Miller is expected to stress the important role the independents will play if the Nation is to achieve your energy objectives. He will also discuss two tax matters:

1. The severe limitations contained in the "small producers" exemption in the provision of the new tax law which eliminates depletion allowance. This exemption is of limited value to the working independents, because Congress redefined the definition of net income and included intangible drilling cost allowance and the cost of dry wells. Accordingly, this limits the value of the depletion allowance for many small producers.

2. They are very concerned that if Congress passes a windfall profits tax, it will apply to profits from uncontrolled (new and stripper) oil. This would adversely affect the independents.

B. Participants:

C. John Miller, President of Independent Petroleum Association of America
L. Dan Jones, Executive Vice President and General Counsel
Bill Seidman
Frank Zarb
Jim Cannon
Fred Hickman (Treasury)
Staff: Mike Duval

C. Press Plan:

White House Photographer only. Meeting to be announced.

III. TALKING POINTS

- I understand that presently over 75% of our exploration and development drilling is being done by the independents. Obviously, you will play a critical role as the Nation goes forward to achieve our critical energy goal of reducing our dependency on foreign imports.

- I know that the Tax Reduction Act of 1975, which I signed on March 29, contains some problems for you, especially with some of the specific language concerning the "small producer" exemption.

- As I said in my Address to the Nation on May 27, if we are successful in getting phased decontrol of old oil through Congress, I will support a windfall profits tax, coupled with a plowback provision.

- If this Nation is really to be successful in maximizing domestic production, it must rely on the proven principle of competition. Therefore, we must encourage the independent oil producers to stay in business as this is one area that should not be left to just a few companies or the government.

PETROLEUM POLICY MEMORANDUM

U. S. energy independence in the next decade can be achieved only through significantly increasing exploration for and development of domestic crude oil and natural gas which currently supply three-fourths of our energy requirements. Conservation and efficient use are important, but increased supply is indispensable. The nation has substantial undeveloped oil and gas resources, approximately half of which are located onshore in the lower 48 states - where the 10,000 independent producers dominate exploration and drilling.

FREE MARKET: It is most urgent that this nation move firmly toward reliance on free market forces to reduce the uncertainties now clouding national policies and inhibiting exploration efforts. Occurrences of the past year provide an indication and real encouragement as to what can be achieved. Higher prices for crude oil in 1974 resulted in the largest single year increase in drilling ever, and extended the life of thousands of marginal wells which otherwise would have been plugged or abandoned. Pending proposals for further tax increases and proposals to perpetuate price regimentation create much uncertainty.

WINDFALL PROFITS TAX: Among these uncertainties, one of the most disturbing is the proposed "windfall profits" tax on domestic crude oil. If applied to all oil, both "old" and "new" oil, most of the burden of the industry's revenue loss would fall upon the independent producer who produces a relatively greater amount of "new" oil and "stripper" oil which presently are uncontrolled. Placing a "windfall profits" tax on oil that currently sells at an "uncontrolled" price would frustrate the independent producers' effort to diminish this nation's dependency on foreign crude oil.

Energy independence for the nation suffered a severe setback because of the depletion provisions of the Tax Reduction Act of 1975. At least $2 billion yearly has been removed from the industry's exploration-drilling funds. The independent producer supposedly was "exempted" from repeal of percentage depletion, but there are severe restrictions - including the limitation of depletion to 65 percent of taxable income - which penalize the active explorer-developer in his efforts to increase domestic petroleum supplies. If a "windfall profits" tax were imposed even with a plowback credit, the active explorer would find himself in an impossible position. While the plowback would tend to encourage him to drill more wells, he would sacrifice his depletion if he did so due to the 65 percent limitation.

SUMMARY: In order to maximize exploration for and production of domestic petroleum fuels (oil and natural gas), the IPAA believes (a) crude oil and natural gas prices must be decontrolled; (b) any "windfall profits" tax would be counter-productive; (c) if a "windfall profits" tax is deemed necessary to achieve decontrol of crude oil prices, then it should apply only to the "old" crude oil being decontrolled - not the uncontrolled oil which has been selling at the free market price and serving to encourage exploration and continued production of marginal properties; and (d) any "windfall profits" tax should allow for a 100 percent plowback credit and should not apply for more than two years.

Submitted by,

C. John Miller, President
Independent Petroleum Association
of America

June 1975