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THE PRESIDENT HAS SEEN. . . .

THE WHITE HOUSE

WASHINGTON

November 24, 1975

JRM

MEMORANDUM FOR THE PRESIDENT

FROM: MAX L. FRIEDERSDORF

mf

SUBJECT: Energy Meeting

Per Jack Marsh's request, I am submitting for the President the minutes from the Republican leadership meeting on the energy conference report.

GOP LEADERSHIP MEETING
November 13, 1975 7:30 P.M.

Subject: Energy Conference Report

President I apologize for the late hour. Jerry Millbank and 75 donors to the RNC were down. Nelson was there. Jerry Millbank is doing a super job. These people will help significantly. Dewey, there were five people there from Oklahoma.

The conferees have finished their work. It is controversial, but I want your advice before I make the decision. How soon before it gets to the Congress for a Conference vote?

Fannin Scoop is saying a week to ten days.

President Roughly December 15 before it must be signed.

Brown Staff has until Friday on the legislative workup. We will vote first week in December and you will have until nearly Christmas to make decision.

President I am familiar with Frank Zarb's analysis on what was agreed to. It's important to find answers to agreements and disagreements. Bud, you were in the conference. What is your interpretation of the conference agreement?

Zarb We are keeping a close watch on the drafting. Several parts of the President's legislation proposed last January are in place: strategic reserve; coal conversion and appliance labeling. There are some non-pricing parts that are objectionable such as GAO and parts of the auto emissions standards.

The mandatory gas shortage came out.
The 2% cutback came out.
Federal Land Leasing came out.
Tariff authority came out.
Other details - Funding on Alaska is out.
There was no economic capitalization.

McClure Mr. President, should we ask questions now or wait?

President Let's finish Zarb's comments and then have questions.

Zarb On the plus side, this dismantles allocation system and price regulation for wholesale and retail. On the negative side is the pricing question which requires a rollback to \$7.66 which can move up or down. Old oil is left at \$5.25. We can move both ways.

There is an increasing deflator and a one House veto every 90 days.

After 20 months Congress can review the bill and cut the GNP deflator. The President can send up an Alaska provision and withdraw it. Within 60 days Congress can block with a one House veto.

The effects of the bill. The \$2.00 tariff authority will probably be denied by the court. 80% of old oil is above \$12.00 and all new oil is above \$12.00.

Clearly, this is not the bill we wanted. Could we get 90 submissions approved. We don't know if the program would expire at the end of 40 months. By then O. P. E. C. may be at \$19.00. There is conference talk about a three cent price roll back. We really see only one penny because the Vienna increase has not yet hit the pumps.

The alternative is a veto and abrupt decontrol. We can send up our own phase out or something like it, but the Democrats won't accept it.

Fannin The analysis of the bill by the majority counsel is quite different than the analysis by the minority counsel. Jackson is increasing our dependency on foreign oil. The bill provides a minimum total capital boost. There is a great difference of opinion. Zarb did a great job. Our counsel sees a \$3.00 - \$5.00 difference at the end of 40 months. By 1980 our imports would increase 4 million barrels and by 1985 7 million barrels. By 1985 there would be a \$31 billion increase in O. P. E. C. oil income, not \$3.5 billion as the Democrats say. We do need better details.

Tower This conference is based on the assumption that domestic production will be maintained, but it won't. It will go down.

Fannin We can't give an accurate assessment.

President Bud.

Brown At the risk of repeating, let me say the provisions are marginal. If we get a good pricing provision, you should sign it. First, the parameters of the two bills were prohibitive. It was a rotten bill. The agreement is the most optimum accomplishment possible based on the two-to-one ratio of conferees against us.

Here is my list of acceptable provisions:

1. Coal conversion.
2. Strategic reserves.
3. Standby authority.
4. International Energy Program.

The marginal provisions are:

1. Mandatory efficiency labels by industry on appliances. By 1980 there must be a 20% overall improvement from the 1972 base, otherwise Government will mandate it.
2. President is given authority to set up a central purchasing agency for all petroleum products.
3. Industrial Energy provisions requiring F. E. A. to set targets for the top 50 companies in each of the ten major energy consuming industries.
4. Maximum Efficient Rate: President is given discretionary authority to require production from designated fields at MER. I question if Interior has the competence or capability to do this.
5. State Conservation programs: This provides for block grants for any state's implementation of a conservation program that will achieve a 5% reduction in energy use.

The objectionable features of the conference agreement are:

1. Pricing provisions. I'm not sure they could have been any better given the parameters. The oil people would rather have present controls, but given the parameters it was not possible.

President The pricing level is \$7.66 isn't it?

Brown

Yes. I'm sorry there was a typing error. I had no chance to edit this.

2. **General Accounting Office Audit.** It was somewhat improved to meet objections of SEC and the certified public accountants. It's broad authority clear down to the service stations.

3. **Coal Loan Guarantees.**

4. **Mandatory Automobile Standards.** Not any problems except in Michigan. To achieve by 1985 will be impossible.

5. **Joint ventures on OSC lands.** There are many restrictions and limitations.

6. **Expansion of FEA authority.** When this is over FEA will be bigger than the Department of Agriculture. Zarb will be the new Butz.

7. **Automobile Research and Development** which puts the Federal Government in the R & D business.

8. **The special exemption for small refiners from the Entitlement's program** for their first 50,000 barrels per day.

9. **Energy Impact Statement by Federal Agencies.** Various regulatory agencies are required to consider the energy consequences of their major actions.

President

Are there provisions for propane and natural gas?

Brown

Yes there are.

John Hill

They took our recommendations on banked costs.

Brown

Jackson says the price reduction per gallon of gas will be 3 1/2 cents, but it will be more like two cents. If companies use banked cost there will be no savings. It raises our dependence on foreign oil by 200,000 barrels per day for two years. After two years the price will be back up and encourage domestic production.

- Brown The oil producers are vehement about pricing. They want immediate decontrol. If you proposed continuation of the 39 month plan, you might get a bill to embrace the present controls. If you veto the bill I see three possibilities:
1. Override and hence passage of the bill.
 2. Sustain the veto and get immediate decontrol.
 3. Sustain the veto and approve the 39 months.
- President What was the ceiling -- \$11.00 - \$11.50?
- Brown The danger would be to sustain the veto and then have the Democrats block a vote on the 39 months. It is marginal whether we can sustain.
- Tower I better call it now. The bill is an absolute and total disaster. It's 180 degrees away from your earlier position. The New York Times has called it a victory for Scoop and the Democrats. It means more Arab oil. The consumer savings stuff is bunk. It cuts off domestic exploration for 20 months and you just can't do that. It will cause stacking of rigs or a flight to Canada. When Canada went below us, the rigs came here. It will pay a high price in domestic jobs. The 200,000 barrels in increased Arab oil is optimistic. It will be much more. It is a turning away from energy independence and will wipe out the marginal producer.
- Mr. President, you get no credit by signing and it's a capitulation to Scoop. I recommend you veto the bill and run the risk. We have 36 solid votes, maybe 39. Russell Long knows how many Democratic votes we will get.
- Stevens The deflater index is subject to Congressional veto. This assumes Congress would not veto the 10% on annual deflater.
- McClure I have a question if the 10% adjustment is subject to Congressional veto.
- Fannin It is absolutely subject.
- Brown The 3% is.
- Tower We get back up to present levels in 20 months assuming you get the full increase.
- Brown The deflater is not subject to Congressional veto.

Stevens There must be a Presidential funding for Alaska having impact on other prices. The pipeline will start flowing in April 1977. We need \$4 billion for the pipeline and \$4 billion on the North slope.

Brown Let me read the language.

McClure That is the House committee memo. It is not yet the formal language.

President Does it apply only to pipeline?

Stevens We have 37 rigs idle and only 16 drilling. There is precipitous decline in summer action. December is rollback time and it doesn't matter if we don't want self-sufficiency. We are going back into double digit inflation and this deflator is only half. My state is at 1971 prices. The people who are bearing the burden are the people who can achieve self-sufficiency. Any decline will come from the \$2.00 tariff removal. Scoop's will only get one penny from this agreement.

Brown The composite price is \$7.95 now. The price in the bill is \$7.66. I agree with Tower, this is a decrease at the pump solely for Scoop's political purposes. If Scoop were President he would veto this bill.

 Under the bill Mr. President, you can send up a request every 90 days for an increase in oil prices and the Democrats will veto it.

 This is the worst demagoguery ever. They will keep prices down at the request of Democratic leaders.

Stevens A few weeks ago I drove from Colorado Springs to Denver and there was a 9 cent per gallon variation in the price of gas. The price of fuel in the North East has to be raised. My vote on giving standby control to Nixon was the worst vote I ever made. I thought it was a vote for free enterprise and Republican philosophy. We should have no controls. Why don't you jawbone oil as was done on steel.

Tower Mr. President, this kills any chance to decontrol the price of gas.

- Brown Dingell tried to help us on the Administration's objections. He made a sincere effort, but he is saying if you don't sign, don't come back.
- McClure I need clarification on an issue. Did Zarb say if certain things were included you would sign the bill?
- Brown My comments to Zarb were they should work directly with Scoop. A major problem was that when we go to pricing Stone and Rogers were negative. We got the best agreement possible. I'm not sure about signing based on pricing provisions alone. Max Friedersdorf and others did a fine job.
- President My instructions to Frank Zarb were that if pricing provisions were acceptable he could say that he would recommend that I sign, but I made no personal commitment to sign.
- McClure There were so many pricing provisions.
- Brown It was like Times Square -- so many offers.
- Zarb It is clear that this is the best possible agreement we could work out. Paul said the prospect of veto was not high. We went for the best bill.
- Brown The first offer was \$9.00 I made an offer of \$10.00 and was turned down.
- Hansen Maybe we are wasting our time. Paul Rogers left the impression that he talked to you personally on Thursday.
- President I talked to Paul one week ago and not since then. The agreement was that stripper wells would be out; there would be a \$7.55 price; Alaskan oil would not be in the agreement and a few others. Then perhaps I could sign. I've not talked to Rogers since then. With most of these conditions Frank Zarb could then say he would recommend that I sign.
- Hansen I support John Tower 100%. This is a disaster. In the Oregon basin Marathon is getting \$4.40 a barrel. It will shut off many old fields. If price of old oil drops Marathon will leave 40 million barrels in one field. Our price will be higher next summer and we will be more dependent on O. P. E. C. if you sign.

- President Let me ask this. If you get \$7.66 which you can tilt, why would Marathon close down? Why would they get less money under the bill?
- Hansen To get Alaskan drilling with composite price you push something down if others go up.
- Brown By letting \$5.25 go up you drag the \$11.00 price down. The Democrats wouldn't leave the strippers out. It became real confusion. John Dingell felt there was a commitment on this agreement. He will be no more or less tractable on natural gas.
- Bartlett Mr. President, you advocated the free market approach and took the bull by the horns. You then switched thinking on decontrol. Deregulation of natural gas is just the opposite if you sign the bill. We have reduced depletion and stacked 125 rigs. There is a 40% reduction in seismic rigs. Is this consistent with your past position? There is more control, less free market, and we become more dependent upon the Arabs. It offers no certainty and puts Congress behind FEA. This would be selling the free market and private enterprise down the river. There is much in the balance philosophically. You should ask if the bill will really do the job.
- President The problems we face are many. The verbal agreement has different interpretations from minority and majority staffs. I will have to see the bill in writing before making a final judgement.
- The 39 months with the \$11.50 is still not certain. Every 90 days we must still go back to the Congress.
- Bartlett You should veto and if necessary force them to override. If you don't sign you won't get blamed.
- Tower There are serious problems in capital formation. They have lost \$2.5 billion from the depletion change. This cuts 16% from the gross income of independents and \$1.5 more two years hence. This really puts us out of business.

Conable What happens if you abandon the appeal on the \$2.00?
Does it go back to the oil companies.

There are some advantages to accepting the bill. You could veto it and probably get immediate decontrol. Is there any chance of oil companies keeping prices down, or any arrangement covering immediate decontrol?

President Let me talk to the latter point regarding decontrol. I talked to the Attorney General and he said there is no way that the major oil companies could work out an agreement not to raise prices. It would clearly violate the anti-trust laws.

Stevens Is it any different than with the steel industry?

President They were not put in a room! Chuck.

Percy I preferred to be a back bencher since I was not a conferee. I recently spoke to the API in Chicago and talked to Bumpers and Glenn to see if they would hold on O. C. S. and stripper wells. I told them what happened when we froze the price of meat. I believe deeply in the free market. While not positive, I tilt toward signing. A.P.I. would love a veto.

Indecision is the worst situation if the bill is signable. The bill will deprive the industry of capital. Sometimes a bad bill is worse than no decision. At best, I tilt toward signing.

My second point is that in two years we have had no conservation measures except the 55 mile speed limit. We must have conservation measures.

I don't like the automotive provisions and the rollback is hypocritical, but at least we have a start toward decontrol that will take 40 months. The country is thirsting for Congress and the President to get together on energy. It is not a good piece of legislation, but it does have a bias toward letting market forces work. It is not quite a disaster, but doing nothing may be even worse.

Tower It would remove the indecision alright. It would stack rigs and stop seismic drilling.

Fannin We started with 2 bills that were impractical and our guys did their best.

Brown We were losing by 4-3 votes among House Conferees and by 12-10 votes among Senate Conferees. There were some ties. It was tough to get anything better. We did the best job under the circumstances.

President It was a hell of an achievement to get this agreement.

McClure I don't want to use any names, but it is necessary. Our position was undercut by John Hill and FEA.

Brown That is really not fair.

President Let me clarify again what Stone and I agreed to. Stone wanted to cooperate. He wanted to exclude stripper wells and that was totally my discussion with him. I never heard about the Alaska question except in the last 48 hours.

Brown You got \$7.66 instead of \$7.55 as a tradeoff on strippers.

McClure I'm not injecting personalities, but others feel they were misled on both sides.

Zarb Stone offered to reopen pricing because someone from that side had to do it. However, unless you could get Glenn and Bumpers it wouldn't go and Glenn and Bumpers refused.

McClure What about the tariff authority?

President I'm told there is nothing in the bill that takes away this tariff authority.

McClure At the end of four years old oil goes to \$12.00.

Zarb 80%.

Zausner Our composite after four years is \$11.40.

McClure Is new oil at same price?

Zausner New oil could go to \$12.00.

Baker Mr. President, I don't know a hell of a lot about it, but I was a conferee. I'm glad you have to make the decision. If I had my druthers, it would all be decontrolled. The country is fed up. There may not be a practical way and I don't know if this is it. We have done the most we can for you, Mr. President, and I'm amazed how much you know. My toenails say veto. My head says something else. Whichever way, you've got my vote.

President In deference to time and long hours I have only two questions.
1. I was told today that if this becomes law, there is no prospect of a windfall profits tax.

Stevens There was no tacit agreement.

Tower You don't need one. You eliminate profits.

President Secondly, I'm very concerned about agriculture and propane gas. The Bentsen-Pearson bill would take care of propane. We can't let it go with no controls. We are in a bind with no House action and a possible veto here. That may leave us with no prospect of legislation on propane.

Bartlett In 1950 there were 2650 drilling rigs in Oklahoma. Now there are 1700 and twice as much demand. In four years there will be less revenue and a slow down in drilling. It will decrease the capital available to the industry. People want something that will work. L.P.G. and propane are problems.

Brown We must yet face the divestiture issue in the House. Jim Broyhill got a provision to deregulate jobbers and a portion of the industry. Let's not forget that this agreement contains five of the 13 energy bills you sent up earlier this year.

One year from now we have an election. God help us if it's not you because we'll get much worse stuff from the Democrats. If you veto do it as soon as you can. We will soon have a summary to Republicans and the oil Democrats. If we have to sustain in the House it will be marginal. We must hold everyone.

Vice President I have been most interested. I think this is the best bill possible from this Congress. If you need to sign something, go to the public so they will know the dangers.

President Thank you for coming. I have made no firm decision. There are still some dimensions lacking on major provisions. We are not clear on what was agreed to and what wasn't. I must reserve my judgement. Let's get it in black and white so Zarb can be more concrete in his recommendations.

Tower Can we say you have not decided?

President I have not decided.

Conable Maybe you can say, I will sign if it will work.

- President I think the responsible thing now is not to get into details.
- Michel I have reservations about it being now. The House needs more time and knowledge. We should advise our people to hang loose.
- President There is one peril in taking a categorical position. By keeping the pressure on we may get a better conference report.
- Its a good idea to say we want an energy program. Until we see the details, there is no decision.
- Stevens There is a common report that you will sign. If you have a recommendation, let us say so, but you have made no decision, is that right?
- President Frank Zarb is recommending it be signed. That is a matter of record.