

The original documents are located in Box C48, folder “Presidential Handwriting, 9/14/1976” of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

THE WHITE HOUSE
WASHINGTON

September 14, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

FRANK ZARB

FROM:

JIM CONNOR *JEB*

SUBJECT:

Deregulation of Naptha-Based
Jet Fuel

Confirming phone call to your office this afternoon, the President reviewed your memorandum of September 13 on the above subject and approved the following option:

"Send decontrol proposal as scheduled"

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE
WASHINGTON

September 14, 1976

MR PRESIDENT:

Deregulation of Naptha-Based
Jet Fuel

In addition to the recommendations shown on page 5 of the attached memorandum prepared by Frank Zarb, Jack Marsh and Max Friedersdorf recommend sending the decontrol proposal as scheduled.

OMB (Jim Mitchell) commented they recommend sending decontrol proposal. They do not believe that the budget impact on DOD should change this.

NSC (Bud McFarlane) commented they recommend sending decontrol proposal but would not object to DOD's recommendation to delay sending decontrol proposal .

If you approve FEA's recommendation, this action should be taken no later than Wednesday, September 15 if we are to have enough time under the law for Congress to review the decision prior to its October 2 recess.

Jim Connor



FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

September 13, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB *FZ*

SUBJECT: DEREGULATION OF NAP THA-BASED JET FUEL

BACKGROUND

Pursuant to your direction when you signed the Energy Policy and Conservation Act (EPCA) last December, the Federal Energy Administration (FEA) initiated the process of removing from price and allocation controls as many petroleum products as possible. Since then Congress has approved conversion of price and allocation controls to standby status for petroleum products accounting for 40 percent of the yield from a barrel of crude oil. These include residual fuel oils, middle distillates (heating oils and diesel fuels), lubricants, greases, and a number of intermediate products. The sequence of decontrol has been determined by the supply and demand conditions for products, the requirement to hold public hearings and the necessity to avoid having more than one decontrol proposal at a time before the Congress.

Based on these considerations the next product FEA proposes to submit for exemption is naphtha-based jet fuel. This is military grade jet fuel (JP-4), and accounts for approximately 2 percent of total U.S. refinery production. The Defense Department consumes 98 percent of such fuel and small refiners account for nearly 40 percent of its total production.

The Department of Defense has objected to submitting the naphtha jet fuel (JP-4) proposal for exemption at this time for reasons outlined in this paper.

FEA has completed its study, held public hearings with full knowledge of DOD's opposition, and made the findings required by the Act: adequate supply exists and minimal price impacts will be experienced in the event of decontrol. FEA proposes to transmit this action to Congress for consideration on September 15, 1976. This is the last day that will allow the required time for congressional consideration prior to adjournment.

The remaining major fuels not yet decontrolled are kerosene-based jet fuel, used primarily by commercial airlines, and gasoline. Studies of these fuels are underway and they are scheduled to be proposed for exemption early in the next session of Congress, or later this year should Congress reconvene after the elections.

DOD POSITION

The proposed unilateral decontrol of military JP-4 jet fuel suffers from the following disadvantages:

- o A price disparity will be created between decontrolled military jet fuel and commercial jet fuel which will remain under price control. When, following the Arab boycott a similar disparity occurred, there was a congressional investigation and both DOD and FEA were severely criticized and accused of wasting millions of dollars in excessive jet fuel costs.
- o Small refiners, the intended principal beneficiaries of JP-4 decontrol, cannot in fact obtain price benefits until their current contracts expire. A few of those contracts will expire by March 31, 1977, but most (61 percent of the contracts, accounting for 60 percent of total supply) run through September 30, 1977.
- o Of six refiners holding JP-4 contracts with clauses that permit termination or renegotiation upon decontrol, only one is small. The others that can gain immediate price relief from decontrol are all large firms (Union, Getty, Cities Service, Sun, and Continental). Another

large firm (Exxon) stands to gain early benefit from decontrol to a lesser degree. At least part of the contracts held by most large refiners will expire by mid-FY 77.

- o There will be unprogrammed DOD FY 77 expenditures of \$20 million.

The foregoing considerations indicate that the proposed expedited unilateral decontrol of military JP-4 jet fuel will serve no useful purpose and is contrary to the best interests of the government. It will increase military fuel costs. It will provide only limited price relief for a few small refiners until FY 78. It will benefit large refiners, some immediately and most by mid-FY 77. It will expose DOD to higher jet fuel prices while continuing to protect commercial airlines. In summary it conveys an impression of government collaboration with big oil - an impression which is not in the interests of either government or industry.

DOD recommends that the action to decontrol JP-4 at this time be terminated. DOD's primary recommendation is that JP-4 should be decontrolled at the end of FY 77, when all current contracts will have expired. An alternative proposal by DOD is that the recommendation for the decontrol of JP-4 be forwarded to Congress in conjunction with either or both the proposals for the decontrol of kerosene jet fuel and motor gasoline.

FEA POSITION

- o FEA's findings and views required by EPCA and supported unanimously in testimony at public hearings held on September 3, 1976, indicate adequate supplies and minimal price impacts resulting from decontrol. Specifically, FEA expects price increases of no more than 1 cent a gallon on the average, with a maximum upper limit of 2 cents per gallon. Since DOD buys 98 percent of all domestic JP-4 production, FEA believes that through its contractual commitments DOD can maintain an appropriate price relationship between JP-4 and commercial jet fuel, which will remain under price controls.

- o The extent to which large refiners benefit and small refiners do not will be a function of existing contractual relationships between DOD and its suppliers. Thus, any budgetary impact will be minimized. In any event, refiners, both large and small, testified unanimously at the public hearings in favor of decontrol. Decontrol now will encourage investment in small and independent refineries, even though the benefits for some refiners may be postponed until their existing contracts expire.
- o Failing to decontrol JP-4 despite the findings and public testimony conveys an impression that the government is willing to risk higher prices for other consumers but is not willing itself to face the implications of decontrol. This will weaken our argument for decontrolling kerosene jet fuel and gasoline.
- o Deferring decontrol of JP-4 until the end of FY 77 would cause this to be the last of the products to be decontrolled. Thus, direct cost increases would be borne by the airlines and motorists from the decontrol of kerosene jet fuel and motor gasoline before the Federal government accepted the cost increase of decontrolling JP-4.
- o Coupling the proposal for the decontrol of JP-4 with either or both motor gasoline or kerosene jet fuel would increase the complexity and uncertainty of obtaining congressional approval for the decontrol of any of these products. FEA's strategy of sequential decontrol has proven effective to date, at least in part, by minimizing the constituencies opposed to any one action.
- o DOD's recommendation to terminate or delay the JP-4 decontrol action at this time would create uncertainty as to the Administration's commitment to decontrol and minimize governmental interference in private industry.

AGENCY COORDINATION

	<u>Supports</u>	
	<u>FEA</u>	<u>DOD</u>
National Security Council	X	
Department of the Treasury	X	
Council of Economic Advisors	X	
Assistant to President for Economic Affairs	X	
Department of Commerce		
Office of Management and Budget	X	
Domestic Council	X	

PRESIDENTIAL DECISION

MR

Send decontrol proposal as scheduled.

_____ Do not send decontrol proposal at this time.

September 14, 1976

MR PRESIDENT:

Deregulation of Naptha-Based
Jet Fuel

In addition to the recommendations shown on page 5 of the attached memorandum prepared by Frank Zarb, Jack Marsh and Max Friedersdorf recommend sending the decontrol proposal as scheduled.

OMB (Jim Mitchell) commented they recommend sending decontrol proposal. They do not believe that the budget impact on DOD should change this.

NSC (Bud McFarlane) commented they recommend sending decontrol proposal but would not object to DOD's recommendation to delay sending decontrol proposal .

If you approve FEA's recommendation, this action should be taken no later than Wednesday, September 15 if we are to have enough time under the law for Congress to review the decision prior to its October 2 recess.

Jim Connor



FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

September 13, 1976

DEPUTY ADMINISTRATOR

MEMORANDUM FOR JIM CONNOR

FROM: JOHN A. HILL *JAH*

SUBJECT: Presidential Decision on Naptha Decontrol

Attached is a decision paper for the President regarding the decontrol of naptha based jet fuel. It has been thoroughly reviewed and signed off by the ERC and, pending a vote from OMB and ~~the Domestic Council~~, is ready for Presidential action.

This action must go to the Congress no later than Wednesday, September 15 if we are going to have enough time under the law for Congress to review the decision prior to its October 2 recess. Thus, the possibility of decontrolling naptha jet fuel this year is contingent upon a Presidential decision no later than Wednesday.

I apologize for the short turn around time but the issue is relatively simple. It would have been at the White House sooner if it hadn't taken 10 days to get DOD to agree to the language in the memo.

Attachment

THE WHITE HOUSE
WASHINGTON

Bob Linder -

This decision has gone to the President. Since they speak of a sending something tomorrow -- thought you should be aware of it.

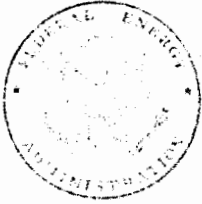
Does FEA send this proposal?

Trudy

9/14/76

*Press
office*





FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20541

September 13, 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

SUBJECT: DEREGULATION OF NAP REA-BASED JET FUEL

BACKGROUND

Pursuant to your direction when you signed the Energy Policy and Conservation Act (EPCA) last December, the Federal Energy Administration (FEA) initiated the process of removing from price and allocation controls as many petroleum products as possible. Since then Congress has approved conversion of price and allocation controls to standby status for petroleum products accounting for 40 percent of the yield from a barrel of crude oil. These include residual fuel oils, middle distillates (heating oils and diesel fuels), lubricants, greases, and a number of intermediate products. The sequence of decontrol has been determined by the supply and demand conditions for products, the requirement to hold public hearings and the necessity to avoid having more than one decontrol proposal at a time before the Congress.

Based on these considerations the next product FEA proposes to submit for exemption is naphtha-based jet fuel. This is military grade jet fuel (JP-4), and accounts for approximately 2 percent of total U.S. refinery production. The Defense Department consumes 95 percent of such fuel and small refiners account for nearly 40 percent of its total production.

The Department of Defense has objected to submitting the nap the jet fuel (JP-4) proposal for exemption at this time for reasons outlined in this paper.

FEA has completed its study, held public hearings with full knowledge of DOD's opposition, and made the findings required by the Act: adequate supply exists and minimal price impacts will be experienced in the event of decontrol. FEA proposes to transmit this action to Congress for consideration on September 15, 1976. This is the last day that will allow the required time for congressional consideration prior to adjournment. ||

The remaining major fuels not yet decontrolled are kerosene-based jet fuel, used primarily by commercial airlines, and gasoline. Studies of these fuels are underway and they are scheduled to be proposed for exemption early in the next session of Congress, or later this year should Congress reconvene after the elections.

DOD POSITION

The proposed unilateral decontrol of military JP-4 jet fuel suffers from the following disadvantages:

- o A price disparity will be created between decontrolled military jet fuel and commercial jet fuel which will remain under price control. When, following the Arab boycott a similar disparity occurred, there was a congressional investigation and both DOD and FEA were severely criticized and accused of wasting millions of dollars in excessive jet fuel costs.
- o Small refiners, the intended principal beneficiaries of JP-4 decontrol, cannot in fact obtain price benefits until their current contracts expire. A few of those contracts will expire by March 31, 1977, but most (61 percent of the contracts, accounting for 60 percent of total supply) run through September 30, 1977.
- o Of six refiners holding JP-4 contracts with clauses that permit termination or renegotiation upon decontrol, only one is small. The others that can gain immediate price relief from decontrol are all large firms (Union, Getty, Cities Service, Sun, and Continental). Another

large firm (Exxon) stands to gain early benefit from decontrol to a lesser degree. At least part of the contracts held by most large refiners will expire by mid-FY 77.

- o There will be unprogrammed DOD FY 77 expenditures of \$20 million.

The foregoing considerations indicate that the proposed expedited unilateral decontrol of military JP-4 jet fuel will serve no useful purpose and is contrary to the best interests of the government. It will increase military fuel costs. It will provide only limited price relief for a few small refiners until FY 78. It will benefit large refiners, some immediately and most by mid-FY 77. It will expose DOD to higher jet fuel prices while continuing to protect commercial airlines. In summary it conveys an impression of government collaboration with big oil - an impression which is not in the interests of either government or industry.

DOD recommends that the action to decontrol JP-4 at this time be terminated. DOD's primary recommendation is that JP-4 should be decontrolled at the end of FY 77, when all current contracts will have expired. An alternative proposal by DOD is that the recommendation for the decontrol of JP-4 be forwarded to Congress in conjunction with either or both the proposals for the decontrol of kerosene jet fuel and motor gasoline.

FEA POSITION

- o FEA's findings and views required by EPCA and supported unanimously in testimony at public hearings held on September 3, 1976, indicate adequate supplies and minimal price impacts resulting from decontrol. Specifically, FEA expects price increases of no more than 1 cent a gallon on the average, with a maximum upper limit of 2 cents per gallon. Since DOD buys 95 percent of all domestic JP-4 production, FEA believes that through its contractual commitments DOD can maintain an appropriate price relationship between JP-4 and commercial jet fuel, which will remain under price controls.

- o The extent to which large refiners benefit and small refiners do not will be a function of existing contractual relationships between DOD and its suppliers. Thus, any budgetary impact will be minimized. In any event, refiners, both large and small, testified unanimously at the public hearings in favor of decontrol. Decontrol now will encourage investment in small and independent refineries, even though the benefits for some refiners may be postponed until their existing contracts expire.
- o Failing to decontrol JP-4 despite the findings and public testimony conveys an impression that the government is willing to risk higher prices for other consumers but is not willing itself to face the implications of decontrol. This will weaken our argument for decontrolling kerosene jet fuel and gasoline.
- o Deferring decontrol of JP-4 until the end of FY 77 would cause this to be the last of the products to be decontrolled. Thus, direct cost increases would be borne by the airlines and motorists from the decontrol of kerosene jet fuel and motor gasoline before the Federal government accepted the cost increase of decontrolling JP-4.
- o Coupling the proposal for the decontrol of JP-4 with either or both motor gasoline or kerosene jet fuel would increase the complexity and uncertainty of obtaining congressional approval for the decontrol of any of these products. FEA's strategy of sequential decontrol has proven effective to date, at least in part, by minimizing the constituencies opposed to any one action.
- o DOD's recommendation to terminate or delay the JP-4 decontrol action at this time would create uncertainty as to the Administration's commitment to decontrol and minimize governmental interference in private industry.

AGENCY COORDINATION

Supports

FEA DDP

National Security Council	X
Department of the Treasury	X
Council of Economic Advisors	X
Assistant to President for Economic Affairs	X
Department of Commerce	
Office of Management and Budget	
Domestic Council	X

PRESIDENTIAL DECISION

_____ Send decontrol proposal as scheduled.

_____ Do not send decontrol proposal at this time.

MEMORANDUM
OF CALL

TO:

YOU WERE CALLED BY— YOU WERE VISITED BY—

Jim Mitchell

OF (Organization)

PLEASE CALL → PHONE NO. CODE/EXT. _____
 WILL CALL AGAIN IS WAITING TO SEE YOU
 RETURNED YOUR CALL WISHES AN APPOINTMENT

MESSAGE

1
Jim Lynn's note on
Napthw issue
Send up decontrol
Does not believe that
the budget impact on
DO & should ^{change} affect this.
offer

RECEIVED BY *T* DATE *9/13* TIME *7:30*

Date: September 13, 1976

Time:

FOR ACTION:

cc (for information):

- ✓ Jack Marsh
- ✓ Max Friedersdorf

FROM THE STAFF SECRETARY

DUE: Date: Tuesday, Sept. 14

Time: 10 A.M.

SUBJECT:

Frank Zarb memo 9/13/76 re Deregulation
of Non-Gulf Based Jet Fuel

ACTION REQUESTED:

- | | |
|---|--|
| <input type="checkbox"/> For Necessary Action | <input checked="" type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief | <input type="checkbox"/> Draft Reply |
| <input checked="" type="checkbox"/> For Your Comments | <input type="checkbox"/> Draft Remarks |

REMARKS:

This action must go to the Congress no later than 9/15 if we are going to have enough time under the law for Congress to review the decision prior to its October 2 recess. Your immediate decision would be appreciated.

Friedersdorf - send decentral proposal
Marsh - send decentral proposal.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor
For the President

Date: September 13, 1976

Time:

FOR ACTION:

cc (for information):

Jack Marsh
Max Friedersdorf

M.F.

FROM THE STAFF SECRETARY

DUE: Date: Tuesday, Sept. 14 Time: 10 A.M.

SUBJECT:

Frank Zarb memo 9/13/76 re Deregulation
of Naptha Based Jet Fuel

ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

This action must go to the Congress no later than 9/15 if we are going to have enough time under the law for Congress to review the decision prior to its October 2 recess. Your immediate decision would be appreciated.

→ Presidential Decision - Send decontrol proposal as scheduled.

MF

Jim Connor
EX of the President

