4/75

QUESTIONS AND ANSWERS

ON THE OPEC PRICE INCREASE

Question:

1. Various members of the Cartel wanted a higher price increase than the ____% finally settled on by the Oil Ministers. What factors lead to the specific level of the price increase finally selected by OPEC?

Answer:

With the prospects of OECD economic recovery and expansion in the offing, many OPEC nations feel vulnerable to the charge of slowing or stifling a general world economic upturn by imposing a large increase in the price of oil.

OPEC nations have benefited financially in recent months from the strengthening of the U.S. dollar in international markets. Between April and August, the U.S. dollar has risen 5 percent in value vis-a-vis IMF Special Drawing Rights (SDRs), thus tending to dilute one of the main OPEC arguments for a substantial price hike.

Many OPEC friends and allies among the poor nations of the world are pinched by high oil prices and could grow more restive, and possibly hostile, under the burden of a large oil price increase.

We should not be misled by the size of the price increase announced today. Our growing dependence on imported oil will certainly make it easier for OPEC to raise prices in the future to even higher levels.

Question:

2. What can oil-consuming nations do to combat OPEC actions?

Answer:

The cartel has the advantage of controlling two-thirds of known oil reserves and a very sbustantial proportion of current production. Close cooperation with our 17 ~~allies~~ partners in the International Energy Agency -- and a solid U.S. national energy policy -- are essential starting points, if we are to have any influence on oil prices and supply.

Over the near term, we must all, particularly the United States, intensify our conservation efforts to insure that our dependence on imported oil does not increase any further. At the same time we must put in place the policies and programs needed to accelerate the development of our own energy supplies. By the end of this decade these new supplies should enable us to begin reducing substantially our imports of OPEC oil and to end OPEC's exclusive control over world oil prices.

Question:

3. What will be the price impact on the American consumer?

Answer:

The price impact of today's action by OPEC will be in the range of _____ cents per gallon for petroleum products.

Question:

4. What is the long-range aim of the U.S. in dealing with OPEC?

Answer:

We are aiming towards a decrease in the vulnerability of the U.S. to the unilateral setting of prices by OPEC. We have chosen a path of strong cooperation among the consumer countries and impressing the OPEC nations with the serious importance we attach to the continuing dangers of high oil prices.

The U.S. will need a strong and comprehensive domestic energy program. As the U.S. energy conservation ethic grows, new U.S. oil, gas, and coal supplies become available, and non-OPEC foreign energy supplies are uncovered, the strength, of OPEC will deteriorate.

Pressures will then increase on OPEC to become more reasonable and cooperative in their price demands. Their present dominance of the market will diminish our energy plans gain speed and scope.

At the same time, the United States has agreed to meet with representatives of the industrialized and developing oil consumer nations and the OPEC oil producers on October 13 in Paris to prepare for a larger conference on the great economic issues before us, which will be convened before the year is out.

I believe that this dialogue, undertaken in a spirit of cooperation and mutual respect, can result in a mutually beneficial evolution of relationships between industrial and developing nations.

Question:

5. What has been happening to domestic oil production?

Answer:

Domestic oil production has been declining since 1970 (it is down 11% since early 1973) and is now about 8.4 million barrels per day (MB/D), a decline of more than 500,000 barrels per day from last year (1974).

Question:

6. What is happening to U.S. oil imports?

Answer:

Imports were predicted to average about 6.5 million B/D, but are now expected to rise up to 7 MB/D by the end of this yea Imports are expected to grow to an average of more than 7.5 MB/D in 1977, if no action is taken to reduce demand or increase supply. The added imports in the next two years are expected to come mainly from Arab nations and could double our vulnerability to an embargo.

Status of Energy Independence Act as of June 3, 1975

Title I: Naval Petroleum Reserves

Senate: Armed Services and Interior Committees held joint hearings in March. Armed Services Committee action not scheduled (possibly awaiting final House action).

House: Competing bills - Interior Committee's H. R. 49 and Armed Services Committee's H. R. 5919 - withdrawn from Floor consideration. Not rescheduled.

Title II: Strategic Reserves (Civilian)

Senate: Interior Committee Print markup scheduled for Thursday, June 5.

House: Provisions in Commerce Subcommittee (Dingell) bill, awaiting full Committee action.

Title III: Natural Gas Deregulation

Senate: Commerce Committee ordered S. 692 reported with amendments.

House: Referred to Dingell subcommittee. No action anticipated prior to completion of their omnibus energy bill.

Title IV. ESECA Amendments

Senate: Administration to testify before Public Works Committee and National Fuels and Energy Policy Study Group (S. Res. 45 - Interior Committee).

House: Administration provisions in Dingell bill, awaiting full Committee action.

Titles V and VI: Clean Air Act Amendments

Senate: Hearings held by Public Works Subcommittee; markup possible for mid-June.

House: Commerce Subcommittee on Health and the Environment (Rogers) held hearings and made tentative decisions. Committee Print scheduled for markup.

Title VII: Utilities

Senate: Hearings held by Government Operations Committee which is drafting legislation.

House: Referred to Dingell subcommittee. No action anticipated prior to completion of their omnibus energy bill.

Title VIII: Energy Facility Siting

Senate: Interior Committee held hearings in context of land-use. FEA/Committee staff meeting held June 3.

House: Commerce Committee indicates hearings will be held following completion of omnibus energy bill.

Title IX: Energy Development Security

Senate: Passed S. 621, prohibiting use of certain authorities by the President for the purposes of establishing a floor price for imported petroleum.

House: Commerce Subcommittee (Dingell) bill (H.R. 7014) has similar prohibitions; awaiting full Committee action.

Title X. Thermal Efficiency Standards

Struck from S. 1483 (Emergency Housing Legislation, opposed by Administration) in Conference.

Senate: No further action scheduled.

House: Housing and Community Development Subcommittee of Banking, Currency and Housing Committee planning June hearings.

Title XI. Winterization

Senate: No immediate action planned (possibly awaiting final House action).

House: Housing and Community Development Subcommittee of Banking, Currency and Housing Committee held hearings; further hearings scheduled for week of June 9.

Title XII: Appliance and Motor Vehicle Labeling

Senate: Commerce Committee held hearings. Several bills under consideration.

House: Included in Dingell Bill, awaiting full Committee action.

Title XIII: Standby Authorities

Senate: Passed Interior Committee's S. 622 including mandatory conservation authorities.

House: Included in Dingell bill, awaiting full Committee action.

TARIFF ON IMPORTED OIL

Q. Secretary Morton said this morning that the tariff on imported oil could be "self-defeating" if the cartel increased its oil prices to this country. He further said, under the circumstances, that he would make a recommendation to the President to remove the tariff. However, at an afternoon press conference Frank Zarb said he believed that regardless of any price actions taken by OPEC, you would not remove the tariff. Do you, or do you not, plan to lift the tariff if the OPEC nations do in fact raise the price of oil to the United States?

A. In making decisions related to my energy program, I considered the various possibilities of world oil prices being lowered or increased by the producing nations. On this point, I do not agree with the Secretary of Commerce and have no intention of allowing this nation's domestic energy policy to be redirected by the possible actions of the producing nations. I am absolutely committed to a program which will reduce our consumption of imported oil and bring on additional domestic supplies so as to make this nation energy self-sufficient by 1985, and that includes the tariff portion of my program.

JH/6/9/75

June 9, 1975

SUBJECT: EPA STUDY SHOWS IMPACT OF STRIP MINING BILL LESS THAN PRESIDENT STATED

The Environmental Protection Agency released a report last week indicating that the production impact of the strip mining bill would be 89.6 million tons. This is contrasted to the estimate released by the Department of Interior and the President estimating up to 162 million tons and a loss of 36,000 jobs.

<u>What's your reaction to the EPA study released last week?</u>

GUIDANCE: I think we first should point out that this was an internal memorandum prepared by one person at the staff level and had not been reviewed with any other policy officers within EPA or with any other agencies.

EPA officials, in reviewing the matter over the weekend, have concluded that they do not disagree with the estimates developed by the Department of Interior. It is my understanding that EPA will be releaseing a statement on this this afternoon, and Frank Zarb, at his 1:30 press conference, will also address this matter.

9,000 —

Jobs = 36,000

Production = 90 Mlyn — EPA aver

(20,000 jobs)

Interior ~~FEA~~ = 40 — 160 Mlyn Tons

JGC

Date: 06/11/75

Office of the Administrator

Ron Nessen

For Your Information

Frank Zarb

Federal Energy Administration

oom 3400 Ext. 6081

National Energy
Information Center

SUMMARY OF SIGNIFICANT INFORMATION
Week Ending June 6, 1975

Petroleum

- The refiner-marketer's share of gaoline sold through service stations showed a gain from 13.3% in October to about 15% in February 1975. The market share of nonbranded independent marketers has also increased, rising from 7.4% of gasoline service stations sales in October 1974 to about 9% in February 1975. This latest change in refiner marketing places increased pressures on the branded independent marketers whose share of the market has been declining - from 89.3% in October to about 76% in February 1975.

- Refiners are converting their full-service company-operated outlets to limited or self-service operations. Marathon Oil Company is converting over 200 of its company operated full-service stations to self-service outlets under the secondary brand name of "Speedway." Other refiners, such as Exxon, are operating these new stations under their major brand names. Industry analysts suggest that this trend in marketing is, in part, an attempt to compete with nonbranded independents which have been increasing their market share.

- A survey during May of 21 of the Nation's largest retailers of gasoline indicated that all companies increased their prices. This was the first time all 21 companies increased their prices since the survey was begun in October 1973. These increases reflect the one dollar import fee implemented on February 1, 1975.

Coal

- Two new estimates of the loss of coal production associated with the vetoed strip mine control bill have surfaced. Both of these estimates are about 90 million tons per year, considerably less than the 162 million tons forecast by the Department of Interior and FEA. The EPA has estimated a tonnage loss of 89.7 million tons in a just completed unpublished study. The study also cites an estimate of 86 million tons by National Economic Research Associates (NERA), a private consulting firm. Despite the closeness in the total of these two estimates, there is a significant difference as to the source of the lost production. From steep-slope mines in Appalachia, EPA has estimated losses of 76 million tons and NERA estimates 56 million tons. Both of these estimates are greater than the Interior estimate of up to 52 million tons. The major difference between the Interior estimate and the new estimates is the loss from mines in Western river valleys. Interior has estimated a loss of up to 66 million tons from this source, while EPA and NERA estimate a loss of only 1 million tons.

- An adverse secondary impact of the coal conversion program was revealed at the FEA hearings in Philadelphia on May 27. Under a 1970 20-year agreement the Steuart Petroleum Co. built a 53 mile pipeline to supply oil to two PEPCO generating plants. One of the plants, Morgantown, is a potential conversion candidate. Without revenue from the oil for the Morgantown plant, Steuart states that they will be unable to meet the financial obligation incurred for the pipeline.

Natural Gas

- The average productive capacity of the nation's gas wells dropped to 72 billion cubic feet per day as of December 31, 1974 according to a report by the American Gas Association. Texas and Louisiana, the largest gas producing states, accounted for most of the 6 billion cubic feet per day drop during 1974. Since 1967 the U.S. productive capacity has dropped by 33 percent, or 36 billion cubic feet per day.

International

- Canada increased its export taxes on petroleum products on June 3. The tax (in Canadian dollars) on heavy fuel oil went from $2.75 to $3.00, on middle distillates from $2.00 to $3.50, and on motor gasoline from $1.50 to $3.50. Taxes on crude exports ($4.20 for heavy and $4.70 for light and medium) remain unchanged.

- Production of crude oil in Iraq rose to 2.3 million barrels per day in April from 2.1 in March as a result of an aggressive export program.

Nuclear

- Data available on the need for new uranium enrichment facilities show that requirements do not exceed supply until late 1985 in the most likely case. This date could slip until 1987 or after if significant foreign enrichment capacity comes on line. Under unrealistic assumptions of no significant further reactor delays and operation at 80% of capacity, requirements will exceed supply at the end of 1982. This is very unlikely given the historical delay pattern and the 70% capacity factors to date. Since an eight year lead time is required for a gaseous diffusion plant, these data imply that the Federal Government has probably a two year grace period for a decision to increase domestic enrichment capacity.

- International debate over nuclear proliferation was re-heated last week as a result of contract negotiations between nuclear vendors and the so-called "near-nukes," countries with the human, financial, and technological resources and potential to produce nuclear weapons.

West Germany has agreed to sell Brazil reactors, uranium enrichment facilities, and a reprocessing plant, essentially an entire fuel cycle from which two bomb materials, highly-enriched uranium or reprocessed plutonium, can be generated. The West Germans declare that ample safeguards exist in the contract to discourage diversion of these materials for weapon production. It is evident, however, that Brazil, a non-signatory to the nuclear Nonproliferation Treaty, may have different ideas. A foreign office spokesman announced that his country "intends to detonate nuclear explosive for peaceful purposes."

France is currently negotiating the sale of reprocessing equipment with two other "non-nukes," Pakistan and South Korea. Officials claim that plutonium restrictions are also included in the contracts, but as is the case with Brazil, Pakistan is not a signatory to the NPT, and South Korea, although a signatory, has not ratified its commitments.

Although facilities operated by signatories to the NPT are subject to unannounced inspections by the International Atomic Energy Agency, a total and enforceable international safeguard policy does not appear likely in the near future.

It is estimated that by the end of the decade, 52 countries will have nuclear reactors operating or under construction, twice the number that exist today. This projection only emphasizes a parallel dilemma confronting the scientists and diplomats in the international proliferation debate: how to prevent the spread of nuclear weapons to the have-nots when the haves continue to amass even more powerful arsenals.

June 18, 1975

SUBJECT: GAO REPORT CRITICIZES USE OF ELK HILLS

Any reaction to the GAO report citing a lack of funding for developing Elk Hills?

GUIDANCE: As you are aware, the President in his State of the Union Address on January 15, urged quick action on legislation to allow commercial production at Elk Hills, California. In addition, the President took a trip to Elk Hills on March 31, 1975.

In his budget, the President stated that a more effective use of naval petroleum reserve is planned to reduce U.S. dependence on imports of petroleum products and help preclude political and economic disruption of supplies. Legislation was requested to increase production from the N.P.R. 1, with proceeds from the sale of that oil to be used to finance further exploration of reserves in Alaska, and the initial cost of establishing a national strategic petroleum reserve.

The budget for fiscal year '75 for N.P.R. development is $69.4 million. In his fiscal year '76 budget, the President requested $117.7 million to explore, produce, and use the N.P.R. as provided in the law. As you know, we requested legislation changing that law and asking the Congress to permit production from Elk Hills.

Therefore, the GAO is correct in stating that there has not been a great deal of production from the Reserves, but it has not been a funding problem. The Administration has requested the authority to permit the production from Elk Hills and the fiscal year '76 budget has requested sufficient funds to handle this production.

JGC

June 18, 1975

SUBJECT: ADMINISTRATION DECIDES AGAINST DECONTROL AND IMPOSING THIRD DOLLAR TARIFF

According to the Wall Street Journal, the Ford Administration has decided against boosting the oil import tariff again, and is holding back on its plan for ending remaining price controls on oil.

Has the Administration decided against decontrolling old oil?

GUIDANCE: The Administration will be sending a decontrol package to the Hill. However, no final decision has been made as to the exact timing.

What's the status of the third dollar?

GUIDANCE: No final decision has been made to impose a third dollar import fee, and the President is still hopeful that the Congress can come up with a substantive energy plan.

JGC

June 20, 1975

SUBJECT: STATEMENT ON THE HR 6860 (ULLMAN BILL)

- The legislation passed by the House is not even a complete energy tax bill, let alone a comprehensive energy policy.
  - It includes no supply actions such as NPR's, coal conversion, utilities assistance, natural gas deregulation, etc.
  - It is a weak conservation program with no impact to speak of in the next few years and it rolls back the President's administratively imposed fees.
- The legislation increases our vulnerability during the next 3 years.
  - Because it rolls back the $2 fee to about $1.
  - Even as compared to the existing import fees, HR 6860 has the following minimal effects:
    - No savings and possibly an increase in demand for imports in the next three years.
    - Total demand savings would be less than 500,000 B/D in 1985.
- By contrast, the President's program would:
  - Save about 2 million B/D in 1977.
  - Achieve energy independence by 1985.
  - Return all increased energy revenues to the American public in a fair and equitable manner.
- In addition to being a negative program there are other weaknesses:
  - The energy trust fund is not needed and drains money out of the economy.
  - Unnecessary and ineffective tax incentives for a number of business activities, that could remove hundreds of dollars out of the Treasury with little or no benefit.

June 20, 1975

SUBJECT: SUMMARY AND PROBLEMS WITH H.R. 6860 (ULLMAN ENERGY BILL)

Summary of Titles and Related Problems

Title I - Import Treatment of Oil

- Establishes quota on imports
- Repeals President's authority under Trade Expansion Act of 1962 to impose license fees.
- Provides for ad valorem tariff not exceeding the greater of 10% or $1 per barrel.

Problems:

- The quota system does not itself lessen demand or increase supply, but merely restricts supply, and therefore will either have no effect or will cause a shortage.

- There is insufficient discretion to provide an adequate differential between duties on crude oil and petroleum products to protect domestic refining capacity.

Title III - Other Conservation Programs

- Establishes automobile fuel economy standards on each manufacturer with civil penalties for failing to meet the standard. (1978 - 18.5 mpg; 1979 - 19.5 mpg; 1980 - 20 mpg)

- Repeals excise taxes on intercity buses, radial tires, and re-refined oil.

- Provides temporary tax credits for home insulation, solar equipment, and electric cars.

Problems:

- The civil penalties will not affect gasoline consumption as all fleet manufacturers are expected to meet the standards set by the bill anyway.

- The repeal of excise taxes will have a minimal energy effect and will result in an expected revenue loss of almost $100 million in 1976.

Title IV - Energy Conservation and Conversion Trust Fund

--Sets us trust fund with limitation on amount of fund and on life of fund (terminates 10/1/85).
--Funded by taxes imposed under the Act.
--Used for energy-related expenditures (under normal appropriation process).

Problems:

--A trust fund will create its own constituency attempting to obtain funding for energy projects. Energy research and development should be funded through the normal appropriation process.

Title V - Encouraging Business Energy Conversion

--Imposes excise tax on business use of oil and gas.
--Provides elective five year amortization qualified alternative energy use property, and certain railroad equipment.
--Investment credit for business insulation and solar energy; denied for certain air conditioning units; denied for generating facilities fueled by oil or gas.

Problems:

--The petroleum business use excise tax takes effect far too slowly to have any serious energy impact in the near future.

--The entire series of amortization provisions and tax credits will have minimal energy impact.

NOTE:

The whole bill would lose about $500 million in revenues per year in the first three years because of repeal of import fees now in existence.

JGC

June 20, 1975

SUBJECT: U.S.G.S. CUTS OIL ESTIMATES IN HALF

In a report to the FEA, the U.S. Geological Survey has cut their estimates of Atlantic Offshore Oil by 80% and said the entire nation may have only half the undiscovered oil and gas resources thought to exist a year ago. Offshore oil resources have been cut from last year's estimate of 65-130 billion barrels to 10-49 billion. Onshore estimates are now at 37-81 billion barrels instead of the 135-270 billion reported in 1974.

<u>What's your reaction to the new report by the U.S. Geological Survey?</u>

GUIDANCE: These figures were released about one month ago in a preliminary report, so they are not really that new.

This work is part of an independent government assessment of oil and gas reserve and further dramatizes the need for a vigorous program to explore the Outer Continental Shelf. Until such a program is begun, we will never be sure of the size of our offshore reserves.

No one argues that the United States is ultimately going to run out of oil and gas--that's why we have to get moving with the President's program. It is why we also must develop synthetic fuels and alternate sources of energy.

<u>Aren't the new figures released by the U.S.G.S. for the Atlantic reserves so low as to eliminate the need for development in that area?</u>

GUIDANCE: As I've said, until you actually explore and drill in the area, it is impossible to accurately determine the size of these reserves. This just further dramatizes the need for further exploration and development on the Outer Continental Shelf.

FYI: The previous U.S.G.S. estimate of total oil reserves and resources in the United States was 200-400 billion barrels. Their revised estimates today are 47-130 billion barrels. The Project Independence Report used the figures of 130 billion barrels as our total oil reserves and resources. END FYI.

JGC

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  - Unnecessary and ineffective tax incentives for a number of business activities, that could remove hundreds of millions of dollars out of the Treasury with little or no benefit.

June 23, 1975

SUBJECT: REP. MIKVA ACCUSES FEA OF OIL COMPANY COVERUP

Rep. Mikva charged that FEA is covering up attempts by major oil companies to pressure service station operators into selling more gasoline and oil products.

Why isn't FEA preventing the oil companies from pressuring service station operators into selling more gasoline?

GUIDANCE: Frank Zarb, in a letter to the oil companies several weeks ago, communicated FEA's concern about any pressure they may put on service stations to sell gasoline above that called for in their lease agreement. Mr. Zarb stated that he considered any such pressure to be counter to the conservation ethic we are trying to instill. In his letter, Mr. Zarb stated that any activities of this sort would be looked upon with great disfavor and that FEA would be following this very closely and would take appropriate action to eliminate this should they find any company pursuing this policy.

I should point out, however, that the FEA has no legal authority to interfere in the terms of leases between an oil company and its dealers. FEA would only get involved when an oil company was attempting to pressure a gas station to sell more than that required in the lease agreement.

In addition, we feel that normal competition should be permitted. However, give-away programs to sell more gasoline are contrary to the conservation ethic and FEA will take steps to eliminate this practice.

So, in summary, FEA is aware of the problem, and is following it closely, and will take appropriate actions to eliminate this wherever it is found to occur.

JGC

June 27, 1975

SUBJECT: PRESIDENT'S MEETING WITH ENERGY RESOURCES COUNCIL

For Announcement

The President met at 11:00 a.m. today with the Energy Resources Council (ERC) to review Energy R & D plans which will be submitted to the Congress on June 30th. Frank Zarb and Robert Seamans briefed the President on the report.

This report was required by June 30th in the legislation which created the Energy Research and Development Administration (ERDA). It represents the culmination of many discussions with, and decisions by, the President and the ERC over the last six months.

That meeting is still going on and following the energy portion, Alan Greenspan will update the President on the current status of the economy.

JGC

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JGC

June 30, 1975

SUBJECT: ERDA REPORT TO CONGRESS

For Announcement

The Energy Research and Development Administration is today transmitting to Congress, as required by law, a comprehensive plan for energy research, development and demonstration dealing with the nation's near-term, mid-term, and long-term energy needs.

You should have an ERDA press kit which contains Volume I of the report which lays out the energy plan. Volume II, which is a more detailed analysis of the energy programs themselves, will be forwarded to Congress in a few weeks.

Here today to review the highlights of the report with you and to answer your questions are Frank Zarb, the Administrator of the Federal Energy Administration, Dr. Robert Seamans, the Administrator of the Energy Research and Development Administration and Bob Fri, the Deputy Administrator of ERDA.

Gentlemen.....

JGC

July 1, 1975

SUBJECT: NEW CONGRESSIONAL BUDGET COMMITTEE RECOMMENDS TAX CUTS

The new Congressional Budget Committee yesterday recommended that Congress consider trimming taxes by an extra $15 billion next year, in addition to extending the tax cut package enacted in March, through 1976.

What's your reaction to the recommendations made by the new Congressional Budget office?

GUIDANCE: It is my understanding that the report was just released and we have not yet even had a chance to even look at it. Therefore, I feel I should not make any comments on the report.

One point made in the report is that there now is sufficient slack in the economy so that there is no longer much danger that a more expansionary policy would exacerbate inflation. It also dismissed fears that larger deficits would ~~strengthen~~ strain financial markets. What's your reaction to that?

GUIDANCE: It is basically our view that in the context of the next one and one-half to two years, our policies must be so constructed as not to reignite inflationary forces. Our view is that increasing expenditures beyond the President's budget raises the risk of reigniting inflationary forces beyond what we deem acceptable.

The report also urges the Federal Reserve Board to increase the growth of the nation's money supply faster than the 5-1/2% to 7% pace projected. Any reaction to this?

GUIDANCE: I don't think it would be proper for me to comment on these specific figures of the Federal Reserve Board or those proposed by the new Congressional Budget Committee. However, we would caution that excessive monetary growth would be counterproductive.

(More)

The report also states that unless the government steps up its economic stimulus substantially, the impact of higher oil prices will significantly worsen both unemployment and inflation. What's your reaction to this?

GUIDANCE: Obviously an increase in OPEC prices has a negative effect, but in our view the extent of it, unless it is an exceptionally large increase is not a worrysome factor. Certainly, it would not make a particularly significant dent in the recovery.

JGC

July 1, 1975

SUBJECT: GASOLINE PRICE INCREASES EXPECTED

Shell Oil has announced a 3¢ per gallon increase and others have predicted a 3-5¢ increase in the price of gasoline at the pump this week.

Will the Administration take action to prevent these increases in the price of gasoline, or is this all a result of the second dollar import fee?

GUIDANCE: We have always said that there is the possibility that gasoline will increase 3-5¢ in the weeks ahead. The second dollar of import fee will only add about 1-1/2¢, but there could be an increase above that since most of the refiners in the country are operating below their allowed margins under FEA's price control rules. The refiners are allowed a margin of roughly 10¢ per gallon and most are now operating at about 5¢ because of the slow demand. However, as demand increases, and as the market permits, they will be increasing their margins. As the summer progresses, additional driving vacations are taken, thus increasing demand, thus allowing refiners to increase their margins. The reason for this increase is to cover their increases in operating costs.

JGC

July 8, 1975

SUBJECT: OIL SPILL LEGISLATION

Yesterday, I was asked if I could confirm the report in the Wall Street Journal that the President is going to be proposing an additional tax on crude oil to finance cleaning up of oil spills. I guess the basic question was, "Could I give you any background on this legislation?"

The President in his Cincinnati appearance at the dedication of the National Environmental Research Center said that when Congress returns from the fourth of July recess, he would submit a proposal to establish a comprehensive and uniform system for fixing liability and settling claims resulting from oil pollution damage in America's waters and coastlines.

We expect to transmit proposed legislation to the Congress tomorrow, so at that time, you can get copies of the legislation and the letters of transmittal. I think it would be premature to go into any of the background at this time.

<u>Can you just give us an overview of what the legislation will do?</u>

GUIDANCE: The proposed Comprehensive Oil Spill Liability Act would 1/ establish a domestic fund to cover claims for oil spill damages, and 2/ create a uniform nationwide system of strict liability for oil spill damages and settlement of claims. In addition, the legislation would also implement two international conventions dealing with oil pollution caused by tankers on the highseas.

<u>What brought about this legislation at this time?</u>

GUIDANCE: As you recall, the President met with the governors of the Coastal States last November. At that time, the President told them he would propose and work for the enactment of a comprehensive oil spill liability bill to help deal with the environmental effects of potential spills from drilling platforms on the Outer Continental Shelf. This legislation will fulfill the President's commitment to the governors.

JGC

July 10, 1975

SUBJECT: FEA CONSIDERING OIL PRICE SHIFT

The Ford Administration is considering a change in its oil price regulations that would allow companies to increase gasoline prices by an extra 2¢ a gallon in some states.

Is it correct that the Administration is considering allowing oil companies to increase gasoline prices another 2¢?

GUIDANCE: It is my understanding that Frank Zarb has confirmed that FEA is considering giving the oil companies more flexibility with the possibility of going to regional pricing of gasoline. At the present time, there is little or no flexibility for the oil companies to respond to surpluses or tight situations regionally because of the current price regulations. The proposed change would give the oil companies the capability to shift supplies between regions in different quantities.

However, I should point out that it would not allow the oil companies nationwide any increase in profit. If they raise prices in one area, or one state, they would have to lower it in another. At the present time when a refiner boosts gasoline prices in response to higher costs in one area, the increases must be the same nationwide.

I believe Mr. Zarb stated that no final decisions have been made.

JGC

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

file

July 18, 1975

MEMORANDUM FOR: RON NESSEN

FROM: JOHN G. CARLSON JGC

SUBJECT: ECONOMIC/ENERGY MEETING

After you left the Economic and Energy Meeting, Bill Simon discussed the need for some final decisions on capital formation tax reform.

Secretary Simon also mentioned that capital formation was a hot topic on the Hill and even liberals were now calling for some form of capital formation. He feels this would be a political issue in 1976. He also stressed that the President should read his five-page memo on this subject because he will probably get asked about this at some future press conference.

Secretary Simon said the House Ways and Means Committee wants some specifics from the Administration reference our plans for capital formation. He stated that he would be testifying before the Ways and Means Committee on Wednesday, July 30, so would need some final decisions before that time.

Bill Seidman remarked that they would be preparing an option paper for the President and have that to him next Tuesday or Wednesday, so he could review the options and make his final decisions prior to his departure to Europe. This will still allow plenty of time for Bill Simon to prepare for his testimony on the 30th.

July 23, 1975

SUBJECT: Natural Gas Shortage to Pose Emergency

A shortage of natural gas next winter could endanger the nation's economic health and security, with cutbacks in gas service taking on the proportions of a national emergency, a House committee report says.

What is the Administration doing to combat a natural gas emergency?

GUIDANCE: FEA is in the process of assessing the impacts and will be making recommendations to the President shortly on how to deal with the problem.

July 23, 1975

SUBJECT: HUMPHREY SAYS HIGHER GASOLINE PRICES DO NOT CUT CONSUMPTION

Senator Humphrey has said that recent evidence disproves the President's notion that higher prices reduces consumption. Even though the price of gasoline has risen 5-10¢ in the past year or so, consumption has not decreased.

<u>What is your reaction to Senator Humphrey's charge?</u>

GUIDANCE: Up until 1973, gasoline consumption was increasing at the rate of 4-5% per year. However in 1973, 74 and so far in 1975 the rate of consumption has held constant. This is while the number of automobiles has increased, pupolation increases, etc. Without anu conservation we would have expected consumption during this summer to be around 7.5 million barrels per day. However, we are closer to 6.9 million barrels per day. (1973 - 7 mb/d; 74 - 6.8; 75 - 6.9)

July 23, 1975

SUBJECT: ENERGY DISCUSSION ON THE SEQUOIA LAST NIGHT

<u>What can you tell us about the President's trip on the Sequoia last night? Was the energy problem discussed?</u>

GUIDANCE: Yes, energy was discussed. A number of Senators and Congressmen talked about where they thought the various positions were, talked about the timing and phase-in of decontrol, and whether or not that could be modified. There is a bill on the House floor today which would decontrol over 48 months and they thought we should see how that vote goes.

There was a discussion on economic impacts, need for conservation, and there was general agreement that we must get moving in the energy area.

The President listened and again commented that he feels very strongly that we must move forward. The President then directed Frank Zarb to work with the Speaker, Senator Mansfield and with Senator Scott and John Rhodes and try and see if we can reach an accommodation before Friday.

<u>Did Frank Zarb meet with a group of Senators on the Hill yesterday?</u>

GUIDANCE: Mr. Zarb did meet with a group of senior senators in Mike Mansfield's office yesterday from 5 to 7 o'clock. They discussed where the various opportunities are for compromise, what the issues were, and what were their concerns, and they were trying to sort out whether or not there are sufficient elements to put together a true compromise.

<u>What are the possible areas of compromise?</u>

GUIDANCE: The timing of decontrol is one of the big issues, probably the central issue - how

(more)

fast to decontrol. Windfall profits was also a big part of the discussion. A rebate mechanism to the American people was an important topic. They also discussed how we continue our drive toward conservation.

These are basicly the same issues discussed on the Sequoia.

<u>When Frank Zarb left Mansfield's office last night he was asked if he was going to be on the Sequoia and he said "no." Was he added at the last minute or did he attempt to mislead us?</u>

GUIDANCE: Following his meeting in Seantor Mansfield's office, Frank then came back to the White House and met with the President and reported on his meeting with the Seantors. The President then invited Frank to join him on the Sequoia.

<u>You said that the President directed Zarb to work with the Hill and come up with an agreement by Friday. Can't negotiations continue after the President goes to Europe? If not, wouldn't this be a good reason for the President to cancel his trip to Europe?</u>

GUIDANCE: Negotiations can always continue. The problem is that after Friday we no longer have five legislative days before the recess to submit a legislative package. We feel this is best vehicle, the most rapid means for the President to send up another decontrol program which they would accept.

<u>Are you saying that you will be sending up another phased decontrol plan?</u>

GUIDANCE: We might if it looks as though the Congress were willing to compromise on some major points. We would send up a package if we felt it would be generally acceptable. I also might point out that under terms of the original Act, Congress is only committed to 90 days, because after each 90 days, Congress can disapprove the decontrol plan.

Even if the Congressional leadership agrees to some form of compromise, and based on past experience, what assurances would you have that the full House and Senate would go along?

GUIDANCE: The alternative would be to give up and not try. That is not good for anyone, and certainly not good for the nation.

Also, I believe that this six month exercise that we've been through has educated a lot of people on the substance of the energy problem and as each day passes, we get more and more members who understand it and are prepared to act responsibly. So, while the risk is always there, we must keep trying.

How would you summarize the President's comments last night?

GUIDANCE: The President remains firm in making further progress on the energy program and not accepting delays. However, he is willing to be reasonable if Congress is prepared to compromise on the issues facing them. He is not going to tolerate continued delay or a compromise which would jeopardize this Nation's energy future.

At the beginning of the President's meeting with his economic advisors yesterday the President was heard to remark to Frank Zarb that "that would be the best news I've heard in a long time."

GUIDANCE: When the President first walked in he asked Zarb how the energy situation looked and Frank said that "with all the difficulty we're having I still see a ray of hope in that there seems to be a spirit of compromise developing." The President then said "that would be the best news I've heard in a long time."

August 8, 1975

SUBJECT: PRESIDENT'S MEETING WITH HIS ECONOMIC AND ENERGY ADVISORS

The President met yesterday for slightly over two hours (2:15 p.m. to 4:25 p.m.) with his economic and energy advisors. The purpose of the meeting was to discuss the energy situation and the decontrol of old oil. In addition, there was a discussion on the natural gas shortage facing the country this winter.

On the subject of decontrol, the President reviewed the various options presented to him by his advisors. He listened, asked a great many questions, but no final decisions were made. The bill extending present price controls six months will probably arrive at the White House around August 27.

There was also a discussion on windfall profits and the Senate Finance proposal, along with a discussion on energy tax rebates.

The President was then presented with a summary of a report being prepared by an inter-agency task force headed by FEA on the natural gas shortage. In the summary, the ten states which will be most heavily impacted because of the natural gas shortage were outlined to the President. In addition, the President reviewed various administrative actions he could take to help minimize the natural gas shortage in these states and various legislative steps he may wish to propose to Congress. These options were presented to the President yesterday, but no final decisions were made at that meeting. It is expected that FEA will be putting out some information on the natural gas problem some time in the next few weeks.

Attending the meeting were: Frank Zarb, Secretary Morton, Jim Lynn, Bill Seidman, Alan Greenspan, Phil Buchen, Secretary Dunlop, Jim Connor, Bob Hartmann, Jack Marsh, Don Rumsfeld, Steve Gardner, Dick Dunham, Paul O'Neill, and the Vice President.

<u>What were the ten states mentioned as most severely impacted by the natural gas shortage?</u>

GUIDANCE:

Iowa	North Carolina
Maryland	Ohio
Missouri	Pennsylvania
New Jersey	South Carolina
New York	Virginia

JGC

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

August 28, 1975

MEMORANDUM FOR: RON NESSEN

FROM: JOHN G. CARLSON

SUBJECT: PRESIDENT'S MEETING WITH THE GOVERNORS ON NATURAL GAS SHORTAGE

The President had a very lengthy meeting, over two hours, with 16 governors concerning the natural gas shortages expected this winter.

Since it was a very long meeting and many people voiced their comments in no particular order, I will give you the major points voiced by each of the participants.

President--Expressed appreciation to all of the governors for coming down for this meeting. He commented that this group represented 50% of the population of the United States and 50% of the income, so they have a significant role in our country. Some are producers, while most are consumers. Zarb, at his request, has put together a very thorough analysis of the state-by-state impact of the shortage. Asked Zarb to present the outlook and then open the meeting for discussion. He said that we may have to recommend legislation. De-regulation of natural gas has been on the Congress' agenda for a long time and it appears that Congress may be more receptive now than in the past. He commented that we are encouraged in the Senate, but feel we don't have enough votes in the House.

Zarb--Commented that the work on the natural gas shortage represents an Inter-Agency effort at the Federal level, but have been working closely with State staffs. Will go into this winter with a 15% shortfall if an average winter. The shortfall could be greater if severe winter. He said our conclusion is that there is great need for deregulation and we will pursue this. There is very little we can do to eliminate this winter's problem. Cannot allocate natural gas, because this would be counterproductive. Have examined other alternatives; one being mandatory conversion from gas to oil or coal, and the 180 day program, proposed by the FPC.

Zausner--Natural gas now contributes to about 30% of all our energy. We use around 20 trillion cubic feet per year (TCF), with one-half of all we consume in the industrial sector. In 1970, there were no curtailments, while 1974 the shortfall was 2 TCF, and in 1975, it will be 2.9 TCF.

Zausner (continued)--This winter, from November to March, we expect a shortfall of 1.3 TCF.

Salmon--Said that as Chairman of the Energy Committee, they were delighted to be there. Met this morning and reached the concensus that there is a significant support for new natural gas de-regulation, and that the governors just this morning had endorsed Governor Boren's five-year de-regulation program which would suspend price controls for new natural gas.

Ray--Said that his people support de-regulation of natural gas. In addition, the governors would like more of an input into the decision-making process.

Boren--Endorsed the 180 day waiver of inter-state price regulations, and they, as a producer, will work with the states to help alleviate their shortage. However, we must continue to look at the longterm problem. Would point out that with de-regulation, intra-state natural gas prices have not skyrocketed, because of contracts, their highest prices are now around $1.66 per MCF with utility bills increasing about 4.7% per year. In regards the Boren proposal of suspending price regulations on all new gas coming on line within the next five years, if people knew this, companies would produce more gas. This is a compromise, but would not be complete de-regulation, but suspension of price controls for five years.

Rhodes--Said that while they are looking at new energy sources, we can conserve ourselves into 15% unemployment. De-regulation must come first, but fighting consumerism and the environmentalists is equally important. Said if he had a choice of 600,000 unemployed or worrying about the environment, it is obvious which he would choose. Because of the environmentalists, we are three years behind. We have 500 TCF of natural gas in shale. ERDA has budgeted $2 million in shale gas, but he read in the 8/5/75 Wall Street Journal, that ERDA has just given $375 million for a pilot project to get natural gas out of manure. Wanted to build a gas storage tank in Ohio, but are still counting turkeys for EPA. It is absolutely asinine to look for alternate energy sources when we have such tremendous amounts of natural gas available in shale.

Nassikas--The Federal Power Commission issued an order this morning at 10 o'clock which would permit an industrial user to make a contract with a natural gas supplier and have that gas transported by a pipeline which has spare capacity across the state lines, and be charged at the intra-state rates. This is a 180 day emergency order. Our experience with this 180 day emergency order at the height of the Arab embargo helped divert 200 billion cubic feet of gas. We would expect a similar diversion this time. However, we need Congress to amend the Natural Gas Act to allow us to do this on an emergency basis. We would expect to be sued and the Court could prevent us from continuing this.

Mandel--Said his state could be hit as hard as any, but have alternate sources so they are not so pessimistic. Believe that phased de-control is the best approach, but feel this should be tied to the de-control of oil. Am opposed to immediate decontrol because it would be too expensive for natural gas users to switch to oil. This is not a new emergency, have been talking about this for two years and have got to get Congress to move. Feel we must look at the overall energy situation and not just the natural gas problem.

President--Said he didn't ask them to come here to put the finger on Congress. The energy crisis was highlighted by the embargo of 1973. Agree that we must look at the overall energy problem, and we have presented a plan, but the natural gas legislation is needed now.

Shapp--Said didn't know and didn't know if the President knew whether the natural gas shortage is real or contrived. Per Jack Anderson, some gas producers have under-estimated reserves by 90%. Suggest the White House investigate gas companies to find out the reason for these shortages. Don't know if de-regulation is best for the country. Utility rates have increased over 40% in the past 18 months. There is a need for a crash program on energy, similar to the Manhattan Project. What we need is a comprehensive energy program.

President--Said he didn't want him to give the impression or get the impression when they leave here that we are not hitting this hard and that we do not have a comprehensive energy program. Last fall, we put together a comprehensive program covering oil, gas, etc. Unfortunately, there has been no action by the Congress yet. He asked Zarb if the natural gas shortage is contrived or not.

Zarb--Said yes, he thought he could answer. In the several years he has been involved in the energy situation, they have gone over this many times. The natural gas shortage is real, and would only be fooling the people if we said otherwise.

Ray--Many governors have never had a chance to meet with the President and since there was only a few more minutes, wanted to get other governors to respond.

Briscoe--Texas is the largest producer of gas, but is also the largest user. In the longterm, it is in the national interest to have total de-regulation. We support the President's program.

Bond--Said there is a contrived shortage, but the shortage was contrived by the Federal laws which have kept such a low, artificial price. We support Boren's five-year suspension of price controls on natural gas.

(Ed)
Edwards--Said there is clearly a gas shortage, such as Shapp would have if Hershey bars had to be sold in Pennsylvania at 5¢. There is nothing we can do in the next five months to solve this winter's problem, expect legitimize the 180 day proposal suggested by FPC. We need to suspend at least 90% of the environmental impact laws that have been passed. We have enough shale oil to run this country for 50 years and enough oil to run this country for 30 years. He proposed that we suspend for five years all of the ecological rules that have been passed, emphasize more coal usage, remove government price restrictions, propose an excess profits tax with plowback, impose a tax on automobiles less efficient and have a crash program for the completion of the Alaska Pipeline. Support the President in his de-regulation efforts. They are the largest producer of natural gas, by area, and last year were the second hardest hit in curtailments. By sharing the shortage this year, we will only emphasize the shortage next year.

Noel--Said we must educate the country on what the oil industry is all about. Afraid that Congress may nationalize this industry because there is such great suspicion of the oil companies.

Carroll--Said his only question is are they going to be able to operate this winter. Feel we must give the FPC the power to allow emergency transfer of gas from intra to inter-state markets up to 180 days.

Edwards, Jim--Said it scares him to hear anyone mention nationalizing the oil industry.

Godwin--Said they support de-regulation. Think it is interesting that we are arguing because Congress and the President can't get an energy policy, when we haven't been able to agree within the Governors Conference on an energy policy ourselves.

President--Said that the present law to impose controls on old oil expires on August 31 at midnight. He has proposed a 30 month de-control program and a 39 month de-control program, but both of these were defeated by Congress. When the six month extension arrives, he will veto it, and if sustained, will take off the $2 import fee. Feel this is the only way to get additional production. Mansfield will be coming in tomorrow to talk compromise, but each must go 50-50, and we have already gone more than 50-50. However, the Oval Office Door is always open. We can't dilly-dally around for another six months.

Greenspan--De-control will not affect the price of residual oil, because most of that is imported anyway. This is important for electric utilities and industry. There will be additional cost in gasoline and home heating fuel of about 3¢ per gallon. Overall, there will be negligible effect on the economy because of the windfall profits tax and the rebates to consumers.

The meeting, which began at 10:40 a.m., adjourned at 12:50 p.m. (Several other governors made various comments, which have not been recorded above.)

Ron:

In today's briefing you were asked if the Administration is concerned tht if we remove the import fee prior to the Supreme Court reviewing our appeal, that they would refuse to hear the case because it is moot.

GUIDANCE:

The Court of Appeals decision said that the collection of fees is illegal and instructed the lower court to enjoin future collections. The Court did not address the question of past fees paid; it only said that there should be no future collections.

There is a good possibility that a subsequent suit or suits will be filed to collect the past fees already paid. If the Supreme Court refuses to hear our appeal on the basis it is moot, then no one would have any rights to collect the past ~~due~~ fees already paid.

Therefore:

> We believe the Supreme Court will take the case because it is an important issue, and because we feel that there ~~will~~ could be a subsequent suit to recover past fees paid. (however, no one can predict with any degree of accuracy what the Court will do, and some advisors do believe the Court will refuse the case at this time)

Why don't we just hold off removing the import fee until after the Supreme Court agrees to take the case?

GUIDANCE: The President has already announced that he would remove the fee if his veto is sustained. For ;us to keep the fee until the Supreme Court agreed to take the case would be playing games with the Court and would be looked on with disfavor.

August 22, 1975

SUBJECT: ENERGY RESOURCES FINANCE CORPORATION

The New York Times says that the Administration, and particularly V.P. Rockefeller and Domestic Council, are proposing a $100 billion fund to channel laans to finance projects to make the U.S. energy independent.

Is the N.Y. Times story correct?

GUIDANCE: The President is examining a number of alternatives on ways to stimulate the production of synthetic fuels and advancing technology such as solar energy.

This is but one of several alternatives. It does not represent in any way a Presidential decision. No final decisions have been made, either on the need for a financing plan and, if so, whether this would be the way.

August 22, 1975

SUBJECT: GULF OIL TO RAISE PUMP
PRICES 7¢

<u>What is your reaction to the comments by Gulf Oil President that decontrolling old oil would raise prices for gasoline 7¢ per gallon?</u>

GUIDANCE: It is my understanding that Mr. Lee, the President ~~xf~~ of Gulf was asked if gasoline was going to go to 90¢ per gallons~~x~~, and he replied that was absurd. He was then asked what the price increase would be and I am told he said that:

> "decontrolling old oil would increase costs about 7¢ per gallon. HOWEVER, if the President takes off the $2.00 import fee, this would knock off about 3¢, making a net increase of 4¢, and because of market conditions, ~~x~~ they could probably not fully recover all these cost increases in the near term. ~~Prid~~ Because of the market conditions, the price increases would come slowly."

So, I don't think their predictions are too far from ours.

August 28, 1975

SUBJECT: COMMERCE DEPARTMENT BRIEFING ON APPLIANCE MANUFACTURERS COMPLYING WITH PRESIDENT'S REQUEST TO CUT ENERGY USAGE

For Your Information

On January 15, the President requested the major appliance manufacturers to cut their energy usage in their products. Today, Secretary Morton has transmitted a letter to the President saying that 57 major appliance manufacturers (or 93% of the total retail sellers) have complied with his request and by 1980 will reduce their energy usage by 20%.

Assistant Secretary Betsy Anchor Johnson will brief the press at 10:30 a.m. today in the Commerce Department and will release the letter sent to the President.

JGC