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THE WHITE HOUSE

PRESS CONFERENCE
OF
FRANK ZARB
ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION
AND
ERIC ZAUSNER
DEPUTY ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION

THE BRIEFING ROOM

11:44 A.M. EDT

MR. NESSEN: This morning we have with us Frank Zarb, Administrator of the Federal Energy Administration, and Eric Zausner, Deputy Administrator of the Federal Energy Administration, to answer your questions.

MR. ZARB: Why don't we get right to your questions.

Q Why did you postpone?

MR. ZARB: The postponement is for a very brief period. Rather than going up at five o'clock tonight, we will probably go up by midweek or around that period.

The question as to why I guess relates to the nature of this process. When we send it up, the clock begins to run, and it ends running five legislative days later, which means that you begin to limit the opportunity to understand the facts, the substance and the impacts.

The President just thought that because of the complexity of the problem and because this presentation is somewhat different than the program we have been talking to up to this moment, that we would be best off having a small opportunity for dialogue before it does go to the Hill.

Q You don't think you have the votes to sustain this action that the President proposes?

MR. ZARB: The decision not to send it today but to delay a day or so was not based upon a vote count.

Q Usually, Mr. Zarb, when the White House uses the euphemism "public discussion" and says that more public discussion is needed, this is ordinarily an euphemism to the fact that at this moment the White House does not have the votes. Did the Congressional leaders tell the President this morning that they did not have the votes for his plan?

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MR. ZARB: I don't want to get into redefining White House euphemisms. There was no question as to "Do we have enough votes?" and the answer, "You don't have enough votes, Mr. President." That was not part of the discussion. There was considerable discussion on the impacts of the program, its specific detail and what it meant. If you wish, I will get into a few of those.

Q Mr. Zarb, in your calculations, what was your thinking about the specific impact of this program on OPEC pricing decisions?

MR. ZARB: I have said a number of times before, and the President has as well, that OPEC pricing decisions and other decisions with respect to their oil policies will be impacted based upon this Nation's resolve to solve its own problem.

Once we have a tough program in place that demonstrates we are going to become less vulnerable, we are going to bring on additional domestic production, then our posture vis-a-vis the producers has changed considerably.

So, if you are asking me whether the implementation of this program will posture this Nation in a stronger position to even deal with the producers over the next ten years, my answer is absolutely yes.

Q If I could follow that up, would that lead to a two-tier price -- a U.S. price and the world price, your plan?

MR. ZARB: That could be the outcome, if you assume that the OPEC countries are going to raise their prices. That could be the outcome.

Q Could I ask, does this represent an end to our attempts to bring down the world price of oil?

MR. ZARB: I don't think we ever will end our efforts in that direction. It does recognize the realities, however, that the extent that we remain vulnerable can increase that vulnerability. We are actually supporting the morale of those who would tend to increase their prices.

Q We now believe the $13.50 then is the right price for oil, is that correct?

MR. ZARB: The $13.50 recognizes current day realities, and if there is a change in that structure, then that should also be recognized, but let me point out what that $13.50 represents because I think it is important.

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The oil prices, new released oil domestically in this country, averaged at $11.50 in January of this year. The effect of a $13.50 ceiling has the effect of freezing the return to producers at $11.50, plus $2 that is affected by the increase in import tariffs.

Now, since new oil will rise to world levels, even including the import tariffs, we proposed in January and continue to propose that the Congress enact an excise tax of $2, taking that away from the producers back to the Treasury and then back to the American consumer.

So, if that occurs, as we had requested, then the net effect of this action would be to freeze the return to American producers at average January 1975 levels, which is equal to approximately $11.50 a barrel.

Did I confuse everybody with that?

Q Let me just go back to this other thing.

MR. ZARB: Ask your questions precisely, and I will get to the answers.

Q Let me ask you precisely on what we were talking about earlier. Is what you are telling us this morning that the Administration is confident that the Congress will go along with the President's plan and since you are confident you want to put off the vote for a few days so everyone can talk about it?

MR. ZARB: I hate to use the word "confident." That is kind of so abrupt and --

Q You say there was no discussion as to whether you had the votes or not?

MR. ZARB: There was not. It is obvious that with respect to this part of the program it has been highly controversial at the Congressional and other levels. On the other hand, it is fairly clear to a number of us that the more it is examined and looked at by thoughtful and knowledgeable people, it will be seen that any change from this position -- for example, reducing prices or rolling back prices -- has to have the net effect of increasing consumption because that is just the way it works -- lower prices means increased consumption, and squeezes out production on the margin and the more you roll back, the bigger that margin gets.

The more you can convince people to examine the real facts, the more they become convinced that this is the most reasonable program that we could go into and still achieve the kind of results that we need to.

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Q Mr. Zarb, the President made a reference this morning to Congress taking hasty action. He hoped they would not take hasty action and would examine this proposal seriously. What is the hasty action he is referring to?

MR. ZARB: I think he was asking for the Congress to examine this proposal in a thoughtful way before they came to any conclusions with respect to their vote, and that means analyzing the real impacts, the changes of this program from the programs we have been talking to heretofore, and if you look at this particular proposal in the principle at which the Congress was developing its own program some weeks back, they are mighty close.

There are some differences, but in principle, we are mighty close.

Q During the decontrol period, as the prices are allowed to rise on old oil, how do you prevent the oil companies from holding back production of controlled oil --

MR. ZARB: Waiting for fuel decontrol?

Q -- waiting for a more favorable price.

MR. ZARB: The reason it is structured the way it is with a 3.3 percent per month release would prompt the producer to take his current total base and release 3.3 percent at that time, which is something of an incentive to have the highest possible number of old oil against which to apply that 3.3 percent.

When you really look at the economics of that, plus the cost of value of withholding that production, we don't think that structuring it this way that we are going to run into difficulty.

Q Mr. Zarb, if we just took the decontrol program and not the rest of the tax program, what is the impact on recovery of this decontrol program?

MR. ZARB: When you say recovery, please --

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Q Recovery from the recession.

MR. ZARB: Well, this inflation impact statement which we have already produced and published was based upon 25 months straight-line decontrol. We have elongated that to 30-month decontrol. If you exclude all of the taxes--and I assume you mean the excise tax, the windfall tax and the tariff--in or out of your model, where is the tariff?

Q As it now exists.

MR. ZARB: So you leave it in?

Q Yes.

MR. ZARB: It is still our view that the impact on recovery would not be significant and not be that problematical, particularly in view of the phase-out over a 30-month period.

Having said that, I want to renew our request and point this out: that since the dollar tariff went on in February, new oil went above its market levels to begin to reach that first dollar increase. I would like to go over this once more because it really is important.

Imported oil, assume it is at \$12 per barrel. The President added a \$2 tariff to that level bringing it to \$14. New oil was at about \$11.50 as compared to the \$12 of imported oil. It begins to seek the world levels which means that it begins to seek the new level including the tariff and stops at around \$13.50.

The President's proposal, and has been since January, that we put a simple excise tax on that new oil to the equivalent of that \$2 -- it comes back to the Treasury and it is returned to the American people along with tariffs and along with windfall taxes when enacted, which I think is an awfully important feature of this overall program.

If it were enacted now, we would be returning -- including the tariff and including the excise taxes which would have been applied to be pari passu -- would be tariffs we would have been returning in addition to a billion and a half dollars to the American people right now.

Q Mr. Zarb, does the excise tax only reclaim \$2, or how much does it reclaim?

MR. ZARB: It reclaims \$2. The excise tax reclaims \$2 without having an impact on consumer prices from what they would be without it.

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Now, the windfall profits ---

Q The difference between $5 and $11?

MR. ZARB: I am sorry. Say that again.

Q What does the excise tax ---

MR. ZARB: The excise tax tends to remove that artificial $2 right from the top of new oil, directly. Then the windfall tax program, when enacted, would address itself to the remaining questions of excessive profits.

Q How do these refunds to consumers work, Mr. Zarb?

MR. ZARB: The original matrix that was set out by the President has, of course, been changed some because of change-out decontrol, because depletion has been changed and a number of other pieces have been changed by the Congress, but the principles remain.

A return of these dollars are to be distributed in a way where the American consumer would get two-thirds of the total and perhaps higher as we look at a smaller body of money. You may recall the first iteration had it so that people in the middle-on-down part of the tax tables receive more back than their increased energy cost. That has not changed at all.

Q Mr. Zarb, how much extra profit will this provide for the oil company?

MR. ZARB: If the program were enacted as the President outlined, there would be no increase in profit to the oil companies in the immediate future. The $2 excise tax would have the effect of actually checking back some of the income that they currently have.

To answer your question squarely, Bill, it would depend on what kind of windfall tax package finally got enacted by the Congress.

Q If you arrived at that situation which you have just mentioned where there was no increase in profit to the oil companies, what would be the incentive to them to increase production?

MR. ZARB: The total profitability at the outset with the implementation of the excise tax would take away some money. The incentivizing would occur at the new oil field, keeping in mind that prices would incentivize conservation in total.

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The old current field now, if you were to drill a new well next to an old well, or use a secondary means of recovery to take more oil out of an existing oil that was declining, that would be under control. This provision, 3.3 percent of that would be eliminated each month so that it would incentivize additional investment in existing fields.

Now over a period of time, and depending again upon a windfall tax program, the return to the oil companies could increase under this provision. How much and how fast would depend upon windfall taxes.

Q Are you saying if the President's program were enacted as he wants it, that there would be no profit increase to the oil companies under old oil, but there would be under new oil? Is that the way you break it down? Is that where your incentivizing comes?

MR. ZARB: The incentivizing comes from the old oil. The new oil would have some effect of rolling back income.

MR. ZAUSNER: The revenues producers would get from new oil would in fact be somewhat rolled back from today's price. In other words, today new oil is selling at higher than roughly $11.50 in response to the tariffs on top of new oil, so that in fact implementing the President's tax proposal would result in less revenues for new oil producers.

With respect to old oil, the key to the windfall profits tax is that while we know $5.25 is not enough to encourage investment in these more expensive new techniques, nonetheless the oil producers do not need $9, $10 or $11 today as an incentive to do that.

So the concept of the windfall profits tax is to pick up all or most of the difference between $5.25 and $11 today so that in, say, the first year, the first six months or at the start of the program, there is essentially no greater revenues for the producers on old oil, but over some period of time, like four or five years, that windfall profits tax will phase out.

That means an old oil producer knows that while he only gets $5.25 today, he invests in a tertiary recovery project or some other more expensive technique, when it comes on line two or three years from now the windfall profits tax will have decreased to the point where that will be economic.

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Q Mr. Zausner, so you are promising them increased profits, but on a somewhat delayed basis?

MR. ZAUSNER: Not necessarily increased profits. What we are promising them is what would seem to be increased revenues, which they are going to have to spend at increased rates to recover the -- in other words, yes, their revenue per barrel will be higher but so will be their cost of production per barrel.

Q What percentage of plowback will you credit against the windfall profits tax?

MR. ZARB: That is a point to be worked out with Congress, and it depends a good deal on whether or not they go along with the excise tax. If they implement the $2 excise tax, then they reduce the base and we can talk about a different size of plowback. If they don't do that, then we are dealing with a bigger pool of money, and obviously the plowback has to be more restrictive.

Q Mr. Zarb, this really still has so many controls on it and so many ifs and so many delays. I am questioning if this is really going to be something that the oil men will buy.

MR. ZARB: Well, it was not constructed with that specifically in mind. (Laughter) I didn't mean that skeptically. It was designed in a way that we think the economics would be so carefully structured as to incentivize enough production to ensure that we get the conservation effect we want and to be absolutely certain that nobody has excessive profitability during that period.

Will it do the job? We think it will. We can make everybody happy? Obviously not.

Q Mr. Zarb, how would you calculate the return on equity at the end of this decontrol period? Will it rise from its current level, which I understand is higher in the oil industry than the average industry?

MR. ZARB: We are going to have a detailed briefing this afternoon over at FEA, and we will have those numbers put together.

MORE

I want to go back to what our original principles were, right along with this whole equation, to be sure that we have a sufficient return on invested capital, so that we do achieve independence and have the invested capital required to do it; second, to be sure that there is no excess profitability by any unit of the energy business while we are doing it; and third, to be as fair as we can to all sectors, including the consumer. This seems to touch all of those bases and have all of the balance possible in a program.

Q Mr. Zarb, when the President came out a little while ago to read his statement, one rather significant change that he made in it from that as originally drafted was it said that "If the Congress does not go along with my plan, my only alternative will be to veto an extension of the oil price control law," and when he came out just now he said, "One alternative would be to veto it."

Can we take this as a softening of his threat to veto an extension if they don't accept his plan?

MR. ZARB: I think you can take it as a recognition that the President never does talk about specifically his veto intentions until he sees the form and formula of a bill that hits his desk, and he just never comes down on a specific veto issue like that until he has looked at it.

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Q He had it in this earlier statement. Did something happen in the meeting with the Congressional leaders this morning to make him rephrase?

MR. ZARB: No. I think he took the statement that was written for him and put it in his own words, and he has always taken the position until he sees all of the specifics of a bill on his desk, he never talks about veto or no veto.

Q Are you ready to wheel and deal?

Q Excuse me. Let me pursue that.

This statement was issued by the President, and it says he will veto an extension. When he came out here, he clearly retreated from that position. Are you denying that?

MR. ZARB: No. I said he took a statement that had been drafted and had gone through several drafts. He looked at it before in the context of his own remarks here this morning and he put both his own thoughts and his own words in his own words.

Q You are not submitting this to the Congress a take it or leave it?

Q This wasn't a draft when we got it. This was a final statement put out by the White House Press Office as a statement by the President, so he had looked at this one also.

MR. ZARB: What is the question?

Q Then when he came out, he changed it.

MR. ZARB: Right.

Q Instead of the flatly "I am going to veto it," he said, "I might" or this is one possibility. We are asking what happened between the time this statement was put out by the President and the time the President came out and read the different statement.

MR. ZARB: There was nothing that I perceived in the meeting with the leaders -- and I was there for the full time -- or subsequent to that meeting which prompted him to make a judgment. As he read over the statement in its last form and made his statement, he put it in his own words with his own thoughts, and I think that that is what carries. Now, I cannot read anything Machiavellian there.

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Q Is your posture that this is a take-it-or-leave-it proposition, this is our plan and we are going with this, or is rather your posture that we are putting this on the table and we will see if we can come up with something that we can both agree on by the end of the month?

MR. ZARB: Well, we don't have really until the end of the month, and the clock is running so fast now that we are running out of time to come up with any kind of alternative to expiration.

I would say that the President has put forth a compromise that he really believes is an extreme compromise from his current position, as far as he could go, given the fact that he needs to have maximum conservation and maximum production.

You have got two major items that you could fuss with in terms of the so-called compromise. One is time elongation or stretching it out even further. The other is doing the cap. If you go below the $13.50 level, you begin to reduce the conservation effect calculated into our savings between now and 1977. It is a zero sum game.

For every reduction you have, you are giving up X number of barrels of conservation. If you elongate, you have the same net effect in terms of the timetable for incentivizing in additional production and you also reduce your conservation effect. So the President has gone a great distance and I would certainly not agree with the way you phrase this business of having it out on the table for give-and-take ---

Q Mr. Zarb, what would be the impact on the consumer price index in the three years that are covered; that is, the remainder of 1975, 1976 and 1977?

MR. ZARB: The 25-month inflation impact statement had some numbers in it which you already have. They would be lesser impact than that. We don't have the final numbers calculated for this morning, but we will have them this week.

The CPI impact will be a lesser one than the one that was in the 25-month program which was published three months ago.

Q Mr. Zarb, can you tell us what caused the Administration to change its attitude toward prices for new oil in the last couple of months when you were opposing a court decision which would have required you to do it, which you successfully won on appeal, and how you are coming forth to do the same thing on an earlier court decision?

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MR. ZARB: Give me specifically what you mean. You are talking about the cap ceiling?

Q Yes.

MR. ZARB: Well, there was a considerable amount of interest on that question with respect to the Congress. When we looked at the numbers substantively in 1975 dollars and calculated the conservation effect plus the incentive effects that we wanted to have from these increases, we calculated that they could be achieved at these levels with a $13.50 stop point in 1975 dollars.

Given that and given the fact that the OPEC nations have been talking the way they have and the general concerns articulated by the Congress, it was our belief that it would satisfy our needs and at the same time preclude the ability of OPEC nations to move our prices based upon their own moves.

Q Mr. Zarb, the statement does not make clear what happens after January 1978. Are you purposefully leaving that open-ended?

MR. ZARB: Well, in all honesty we could calculate that at the end of 1978 and the way this will be written is that all controls will be off, including the cap, but you and I both know that between now and then the Congress and others will have an opportunity to look at the world of energy and the world energy price situation and make other judgments.

At the moment, we are shooting for a January 1978 complete return to the non-controlled situation.

Q Mr. Zarb, how do you make sure that the people who have all this expenditure for higher prices on oil, that they are going to be the same individuals who get the tax rebate? Maybe that is a stupid question but I want to know if there are some people who pay out the expense and won't get the rebate.

MR. ZARB: Well, the way it was set originally everybody would get a rebate, and the calculations were made again that those in the middle income and lower areas would achieve what we calculated to be a higher rebate than their actual increasing cost recognizing that the last two years of oil inflation have hurt those people more than anybody else, particularly those who were on a non-indexed fixed income.

Q But everybody who pays it out will get the rebate?

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MR. ZARB: Yes, ma'am.

Q One question. If the Congress would pass a phased decontrolled program similar to the one you outlined, and they took no other action, either on a windfall profits tax or on a rebate of payment by consumers, what would your reaction to that be as far as the economy is concerned? That is a possibility, isn't it?

MR. ZARB: When you say from the standpoint of the economy, you are again looking at a two and a half year phasing program which the Nation could stand. Your question was what would my reaction be and it would be absolute disbelief.

We already have put forth a program where if enacted we could be returning dollars to the American people right now today, both from the tariff and from that excise tax which would have followed the tariff. That is over a billion dollars right now, since February 1.

Q Are you still talking about an excise tax on windfall profits tax?

MR. ZARB: Yes, ma'am.

Q Starts in January, or starts right now?

MR. ZARB: As the excise tax went in it could be made retroactive to the most appropriate point and you know that that is going to depend upon how the Congress finally comes down on plowback and a whole host of other things.

In this business you know it is a little extraordinary. We don't send up a bill on the tax legislation. We go up and talk about a principle and an intent and what we try to accomplish, and then we work it out with Ways and Means.

Q You cannot get this tax legislation in two weeks, can you?

MR. ZARB: The excise tax, incidentally, and some form of return mechanism, could be done in two weeks if that was the mood of the people concerned. Excise tax is very straightforward. I would write that in about two sentences.

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Q January or beginning right now?

MR. ZARB: Again, it would depend upon excise taxes and the extent to which windfall had a plowback or didn't have a plowback, and I really haven't focused on that hoping that we worked that out with the Ways and Means.

THE PRESS: Thank you.

END (AT 12:07 P.M. EDT)