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THE WHITE HOUSE

PRESS CONFERENCE
OF
FRANK ZARB
ADMINISTRATOR OF THE
FEDERAL ENERGY ADMINISTRATION
AND
ALAN GREENSPAN
DIRECTOR OF THE
COUNCIL OF ECONOMIC ADVISERS

THE BRIEFING ROOM

10:30 A.M. EDT

MR. NESSEN: Frank and Alan have to go to the Hill and be there by 11:00, so let's start and go for 20 minutes. As soon as this is over, I will have the captive nations' statement for you for automatic release at 11:00.

Q Could you start by going over the new price projection you just gave several people?

MR. ZARB: With your permission, as is not normally my custom, I will make a brief statement and then I will do that.

The President will today send forward a modified decontrol program to the Congress, under our current statute, which will have it before the Congress for five days and simple one-House majority can defeat it. The program continues to provide the principles that the President articulated -- conservation of the short-term, leading to independence and fairness and equity to people, the three major principles we have stuck with since January. It does have an effect of stretching out some of the conservation elements we had counted on one additional year.

The program from a substantive and programmatic standpoint seems to us to answer all of the objections raised by some of the critics in the oil decontrol question over the last two weeks.

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They raised the question of effects on the economy during a recovery period. They raise the question of price increases while acknowledging they must occur, should occur, over a gradual period so both the individual consumer and the industrial consumer could readily adjust to it. They raise the objection that the returns to the producers should be moderated to preclude windfall as we provide a sufficient revenue for full productivity.

Now on the other side, the industry and the energy requirements that we must at some point end the Federal control system, this answers that in that it ends in 39 months; secondly, that the industrial community, be it independent or not, should have sufficient return on invested capital to fund our maximum capacity as a Nation.

These provisions in this program answer all those programmatic and substantive issues. It provides as follows:

Old oil will decontrol over a 39-month period. During the first year of operation it will go at a rate of 1-1/2 percent per month, second year 2-1/2 percent per month, third year 3-1/2 percent a month, until it actually finishes in 39 months out and as complete controls expire.

It provides for a ceiling on released oil of \$11.50, which, as you recall, was the number we originally calculated as the return to the producer in our 30-month program.

It then has that \$11.50 ceiling escalate up at the rate of a 5-cent per month, which brings us to about \$13.45 in 39 months and thereby provides the gradualism both with respect to this period of recovery and with respect to the total stretch-out to accommodate adjustments that the consumers require.

We have talked to Chairman Ullman and Chairman Long about a windfall tax program. We are prepared to support a windfall tax program associated with this that would tax the increases of revenues brought on by the released old oil. That would provide an acceptable plow-back that all could agree to, and at the same time it would phase out over a period of three to six years, whatever the two committees finally agreed to.

We spent considerable time in the last week, not only talking about the substantive issues of decontrol and those who would object and why, and where there seem to be reasons that fit into our energy needs and accommodated them, but also the whole notion of windfall and how we could go forward on that track.

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In summary, what I am saying is of all the arguments I have heard that were substantive, in the last two weeks, this program appears to answer each and every one of them.

Q Frank, do you have confidence that there is consensus now in the Congress of this program?

MR. ZARB: Peter, I just don't know. I do know that the many, many Democrats who worked with us over the weekend and the early part of this week, until, very often, late in the night, including people such as John Dingell and Al Ullman and many of the people who have been involved, like Jim Wright and Congressman Worth, that during our discussions we raised all of the parameters of problem and solution and this faces squarely those particular issues.

Whether that represents a sufficient consensus to have this thing effected, I am not sure. I do say this is our chance, I think, to demonstrate to the American people that in this business of energy their President and their Congressmen come together and effect an orderly and acceptable solution.

Q Could I follow that by asking whether they, the Congressional Democrats, proposed some features of this?

MR. ZARB: Yes.

Q What about the $2 import fee, does that stay on?

MR. ZARB: That stays on.

Q Can you give us the new examples of gasoline price increases?

MR. ZARB: It is shown in your fact sheet, but I want to caution you a little bit. In 1975 we show a real reduction of about a half-penny a gallon because of the lowering of the cap and the slow start-up of decontrol.

Now, I don't believe, knowing the marketplace, that that will have the effect of actually lowering the pump price by half a penny or a penny. It will have an impact of stabilizing any increases in that magnitude that might have come this year.

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The other increases are shown to be a 2-cent increase solely related to these provisions. There are other factors that occur in the marketplace that increase that rise, but solely related to decontrol getting up to the 5 to 6-cent level at the end of the period, solely related to this program.

Q What would happen if Congress approved this program, or let it stand, and then did not extend the August 31 date? Would that cause you a problem?

MR. ZARB: There is no likelihood of that. The Congress would like us to extend the August 31 date no matter what we did. If the law expired August 31 there would be no controls at all so that would be completely mooted.

Q Why does he want just a 90-day?

MR. ZARB: The discussions we have had thus far would provide if the Congress accepted this -- and I emphasize this point -- under the law Congress gets a new look every 90 days and has a 5-day period with simple one-House majority to cancel it, so that they have got an insurance policy in terms of being able to re-examine it.

If the Congress does agree to this, they will most likely move to put it in legislative form along with the windfall provisions. If they do that we will have a 39-month extension of the Act or a 36-month extension at that point; thereby all the provisions would happen in parallel and some of them would expire in parallel.

Q Can you be specific about the windfall section? When you talk about appropriate plowback factors, are you talking about what you proposed before or do you have some new dimensions?

MR. ZARB: The discussions we have had thus far have been pretty much around the Senate Finance Committee model that they have been working on. And it has a -- and I am going to be general here because it has not been firmed up -- but it has the first year the tax gets to about an 80 or 85 percent level. In other words, 15 or 20 percent remains, and then plowback is somewhere between 20 and 25 percent of that 80 or 85 percent.

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Now I just want to caution you those were very preliminary numbers to generally discuss principles about return to the industry -- what is required to ensure maximum productive use of our resources. I don't want that to be reported as the plan that we have agreed to but you can get a feeling for the general areas which we are discussing.

Now, over the period of four to five or six years, or whatever, that would phase out of existence, so you could see the plowback would become greater perhaps or the 85 percent would go to 80 percent or 60 percent from there on out.

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Q On this same point, were you saying a minute ago that the Administration proposes to apply the windfall profits tax only on revenue, additional revenue, on old oil as that price increases, and not at all on $11.50 oil that is at $11.50 now?

MR. ZARB: That is correct.

Q That is a much more generous proposal than the one the Administration made last winter, is it not?

MR. ZARB: Only to the extent it recognizes a change for depletion. You may recall when we presented that in January we were closer in saying this had been calculated on the basis of existing depletion, that the depletion probably makes the difference, and if you look at the real numbers, they come close.

Q Is this the last chance, if Congress does not buy this plan? Do we get instant decontrol on September 1 or does the President sign some shorter extension of the act?

MR. ZARB: It is my best judgment, based upon everything I know as of this morning, that if the Congress turns this down on whatever basis, that the next probable event is full decontrol as of September 1.

Q How would the money be rebated, the taxes that you raise. How much would it amount to?

MR. ZARB: We have talked to a number of people, including Senate Finance, about this issue, since they now have the House passed bill. We would hope they would get the windfall plus rebate mechanism into this bill.

The basis upon which we start talking is that the available funds, which would include the tariff and ongoing windfall, would be a lot lesser than we were talking about in January.

But, our matrix at that point was to return two-thirds of that money to individuals through the income tax mechanism.

The remaining one-third would be divided in half with half going to State, local and Federal Government, and half going to lowering corporate rates.

It is likely because we have a much lesser collection here -- at least at the moment we have not faced the natural gas question in this bill -- that will be a whole other issue, but that was part of our original calculations, that the Congress might want to readjust the formula in that regard.

We are prepared to have those discussions as soon as they are ready, but that is the program which we put on the table, and it still rests on the table.

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Q Would this rebate replace or negate any need for extension of the current tax cut? Maybe Mr. Greenspan could answer that.

MR. GREENSPAN: Those are two wholly independent issues; that is, the question of the extension of the 1975 tax cut is in no way related to this particular question because, as Frank has pointed out, the President's energy program has always contemplated a return, a restoration of the purchasing power of consumers that would be attendant on increases in oil prices.

In that sense, it is sort of an independent program and a far more broader fiscal policy question will be relevant to the 1975 tax cut extension and will not relate to this issue.

Q Frank, just to be sure I am correct on this, are you suggesting the President will still veto a three-month extension if Congress does not go for this next week?

MR. ZARB: I am not in a position to commit the President. I can only give you my best personal estimate of what will occur in this event. He has said time and time again that he has no intention of simply delaying action for the sake of delay.

There seems to be no calculable reason why we should postpone something for three months when we are not begging to know anything more than we know today. It will only bring us back today three months from now, and in my view that would not be an acceptable solution from the President's standpoint.

We need to face these issues in energy, and every one of them is going to be tough, as everyone has been tough up until now, and postponing them is not a solution. It only makes us more vulnerable over a longer period of time before we finally face up on the hard questions that have to be answered,and this is one of the hardest.

Q I want to be sure on the rebates, Frank. Are you saying you believe it is the mood of the Congress to rebate a higher portion of windfall profits to the consumer?

MR. ZARB: No, I am saying that the President proposed in January that all of the captured monies from this program be returned to the consumer. For the first time, we are getting legislative attention to that issue, and we stay in the same position that we anticipate the energy program standing on its own and all the revenues that accrue to the Treasury by virtue of this energy package be returned to the economy, with a giant share to the consumer, including the tariff.

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Q Not to quibble over a penny, but Secretary Simon told a group of reporters this morning he expected this plan would raise gasoline prices by 7 cents a gallon at the end of the period. Is that roughly correct?

MR. ZARB: Peter, he could be correct, give or take some mills. I have given that 7 cent number. The real analytical work shows 5 to 6 cents, and the difference being our early calculations based upon a known $13.50 cap.

That 7 cent number has been washed into these last two iterations, and I have continued to try to stay conservative so when we talk about 5 or 6, I am not going to discount 7.

I think it is unlikely, but we have always moved to the higher end of the range because other people do studies and calculate numbers differently and sometimes they try to demonstrate they are higher than they are.

Q He also said there would be a penny increase this year and 4 cents next year. Is that roughly correct, in your calculations?

MR. ZARB: No, we are talking about the effects of this particular program.

Q He did not talk about the program, but he said the compromise would involve these increases.

MR. ZARB: Not being there to ask how the question was asked, we have said right along there are as you know, in the present industry, these cost banks that stay there because of controls that build up, and we had always anticipated from June until Labor Day there could be a 2 to 5 cent increase.

The effects of this program have the effect of a real reduction of a half a penny or so by the end of the year. I don't believe the market mechanism is going to show that on the pump, but it will have a stabilizing effect on prices and probably will preclude any meaningful increases of this variety or at least up to this amount during that period.

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I am not trying to be cagey, but the market works with lots of different forces on it and I can only tell you the effects of this program.

Q Will you resist in the legislation after the 90-day extension, the 90-day review clause that is in the present law?

MR. ZARB: I would hope to give the industry some stability -- and I am not laying out a new rule at this point -- but it has been my understanding right along once we came to agreement with Congress on a plan we both felt would work, one of the things we both wanted to achieve was to give the Nation some feeling of permanence as to how the energy program was going to work.

Under the circumstances, this program has been so designed so that during this first year of recovery the impacts are modified to give comfort to those who felt they had other concerns.

We did not agree with some of that, but the fact was we really did believe that it was worth a last chance to demonstrate that we can get together and push the energy program forward. And I cannot find anywhere in any of the discussions, including much testimony that Alan and I had in the last two weeks, where substantive issues were raised with this, that this program does not answer them.

There may be other issues but --

Q Mr. Zarb, how close does this program get you to your 1977 goals compared to where you wanted to be last January?

MR. ZARB: It slips a portion of that for about a year -- but I want to be fair on that question as well.

There are two things that occurred. The recession, which was unanticipated, gives us a little different projection as to increases in imports in the next two years, if we did nothing, so rather than being at the two million barrel level we are a little closer to the 1.6 million -- 1.7 million level.

Secondly, we have been able to make some inroads, I think, and will, the way things are structured now and improving what we projected to be our nuclear power capacity unless some things go the wrong way in that area.

There are a few other things that are happening that we can count on for additional improvement, so while we laid the numbers out for you to show you how much we do slip from 1977 to 1978, so that you can see we can be consistent and honest from press conference to press conference, I believe we are going to make up some of that deficit with some other actions we had not counted on.

Q Frank, I am sorry but I don't understand. Why is the windfall profit going to be allowed in the future where it is not allowed now? In other words, why is the windfall profits tax going to phase out? You are still pumping old oil. It is still a windfall profit. You are just going to allow it?

MR. ZARB: No matter what you do your costs go up, and any existing facility, even if your investment was at a lower rate.

The macro effects of this program are to (a) ultimately come out from under controls so the marketplace within general constraints could apply -- and by 39 months from now hopefully that will be so; secondly, to ensure that a productive industry is allowed sufficient cash flow within the control mechanism to maximize its productive capacity.

At the same time, it precludes the ability to capture some of these profits unless the profitability goes back into American energy sources in American grounds. So you are able to catch it on both sides.

I think that in my discussions with both Chairmen that there is no question but what legislation of that variety can be written and can be passed, so it does work exactly the way we all want it to work.

THE PRESS: Thank you very much.

END (AT 10:55 A.M. EDT)