The original documents are located in Box C32, folder "Presidential Handwriting 11/25/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE PRESIDENT HAS SEEN...

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

November 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

As you requested, I have reviewed the energy materials included in Senator Humphrey's remarks in January, the Pastore-Wright energy program, the program proposed by the freshmen Democrats, and the quotes of the statements made by the Majority Leadership early in the year that were recorded in Ron Nessen's memo of May 27.

The remarks made by Senator Humphrey contain few explicit legislative promises, but rather focus on rejecting the economic bases of your proposals. Since the substantive observations were critical of the Administration's program, and the affirmative statements largely generalities, there is very little that appears in the Humphrey material by way of unkept promises except, of course, the implication that the nation can meet its energy objectives without any significant price impacts.

Specific proposals in the Pastore-Wright energy program are indicated below in the left-hand column. The column at the right shows whether these items were addressed in the legislation considered by the House-Senate Conference on H.R. 7014/S. 622 and the action taken by the conferees.

Pastore-Wright	H.R. 7014/S. 622
Price	
- No decontrol; reject import fee; relax controls only on secondary and tertiary recovery.	- Would roll-back composite price of crude oil from an estimated $8.75 (with fee) to $7.66 (approx. $5.25 for old oil, $11.25 for new oil) but would be gradually adjusted upward.
- 5¢ per gallon gasoline tax.	- Subject not addressed in legislation.
- Eliminate depletion allowance for all but small, domestic producers who do not retail.	- Subject not addressed in legislation.
Conservation	
- Use artifical shortages with allocation if conservation targets not met.	- Eliminated by Conferees from H.R. 7014.
- Mandatory energy efficiency standards for all appliances and automobiles.	- Bill contains mandatory fuel economy standards for motor vehicles, with environmental bail-out. Imposes mandatory efficiency standards for appliances only where a finding is made that voluntary energy efficiency targets are not being met.
- Exclusive federal authority to purchase imported crude and product.	- Similar provision is included in the bill, but authority is discretionary and expires 90 days after enactment of the legislation if not exercised.

- Establish National Energy Production Board to administer authority for federal purchase of oil imports.	- Establishment of NEPB not addressed in legislation.
- Excise tax on fuel-inefficient motor vehicles.	- Does not contain excise tax but does impose civil penalties for manufacturers who do not meet fuel-economy standards.
- Thermal efficiency standards for new building construction.	- Addressed in separate legislation discussed below.
- Tax incentives for installation of insulation and solar heating.	- Subject not addressed in legislation.

Most of the Pastore-Wright proposals would not aid in achieving our energy goals, and many are directly contrary to your initiatives. They shared, however, one common element with the Administration's proposals, which has been acted upon -- authority to promulgate mandatory energy conservation standards which would apply to all new residential and commercial building construction. When legislation on this subject was finally acted upon by the House, it contained no mandatory standards provisions. So in one area where the Democrats had occasion to carry out one of their proposals and had Administration support, the Congress failed to redeem the undertaking made by its Leadership in January.

The promises of the Leadership recorded in Ron Nessen's memo are the most explicit evidence of the gap between the assurances of action and the actual record. On the merits, though, from an energy standpoint it is fortunate that the Congress has not acted on the Pastore-Wright proposals, which would largely go in the wrong direction for achievement of our necessary energy objectives.

Attachment

THE WHITE HOUSE

WASHINGTON

May 27, 1975

MEMORANDUM FOR THE PRESIDENT
DON RUMSFELD
BOB HARTMANN
JACK MARSH
MAX FRIEDERSDORF

FROM: RON NESSEN RHN

My notes from a meeting of February 28, 1975, with Democratic Congressional leaders on the President's energy program, show the following quotations which may be of some help in the days ahead:

Senator Pastore:

"If we can't come up with something in 60 days, we can't come up with something (at all)."

"I don't see how we can ask the President to do more than postpone the second dollar for 60 days. If we don't come up with a program by then, you can put it on."

Speaker Albert:

"It's not fair to ask you to make a decision until you've studied our plan. Just hold off the second dollar until you have studied it."

Congressman McFall:

"If the goal of the import tariff was to get the mule's attention, you've got the mule's attention."

November 24, 1975

MEMORANDUM FOR: FRANK ZARB

FROM: JIM CONNOR

Many thanks for the attached information. Please prepare an appropriate package for the President with the attachments mentioned.

We would like to get this to the President before he leaves.

mp 11/26

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

Jim - The P asked for this some time back - you should send it in. Bud

MEMORANDUM FOR JIM CONNOR

FROM: FRANK G. ZARB

As you requested in your memorandum of October 17, I have reviewed the energy materials included in Senator Humphrey's remarks in January, the Pastore-Wright energy program, and the quotes of the statements made by the Majority Leadership early in the year that were recorded in Ron Nessen's memo of May 27.

The remarks made by Senator Humphrey contain few explicit legislative promises, but rather focus on rejecting the economic bases of the President's proposals. Since the substantive observations were critical of the Administration's program, and the affirmative statements largely generalities, there is very little that appears in the Humphrey material by way of unkept promises except, of course, the implication that the nation can meet its energy objectives without any significant price impacts.

Specific proposals in the Pastore-Wright energy program are indicated below in the left-hand column. The column at the right shows whether these items were addressed in the legislation considered by the House-Senate Conference on H.R. 7014/S. 622 and the action taken by the conferees.

Pastore-Wright	H.R. 7014/S. 622
Price	
- Significant rollback of crude oil prices ($4.25 for old oil, $7.00 for new).	- Would roll-back composite price of crude oil to $7.66 (approx. $5.25 for old oil, $11.25 for new oil) but would be adjusted upward.
- Exclusive federal authority to purchase imported crude and product.	- Similar provision is included in the bill, but authority is discretionary and expires 90 days after enactment of the legislation if not exercised.
- Prohibition of construction-work-in-progress and advertising in utility rate bases.	- Subject not addressed in legislation.
- Prohibition of automatic utility fuel adjustment clause.	- Subject not addressed in legislation.
- Repeal of investment tax credit, asset depreciation range, and accelerated depreciation for utilities.	- Subject not addressed in legislation.
Conservation	
- Artificial gasoline shortage with allocation.	- Eliminated by Conferees from H.R. 7014.
- Mandatory energy efficiency standards for all appliances and motor vehicles.	- Bill contains mandatory fuel economy for motor vehicles, with environmental bail-out. Imposes mandatory efficiency standards for appliances only where a finding is made that voluntary energy efficiency targets are not being met.
- Excise tax on fuel-inefficient motor vehicles.	- Does not contain excise tax but does impose civil penalties for manufacturers who do not meet fuel-economy standards.

- Thermal efficiency standards for new building construction.	-	Addressed in separate legislation discussed below.
- Tax incentives for installation of insulation and solar heating.	-	Subject not addressed in legislation.
- Repeal of tax deduction for intangible oil drilling costs.	-	Subject not addressed in legislation.

Most of the Pastore-Wright proposals would be counterproductive to achieving our energy goals, and many are directly contrary to the President's initiatives. They shared, however, one common element with the President's initiatives -- authority to promulgate mandatory energy conservation standards which would apply to all new residential and commercial building construction. When legislation on this subject was finally acted upon by the House, it contained no mandatory standards provisions. So in the one area where the Democrats had occasion to carry out one of their proposals and had Administration support, the Congress failed to redeem the undertaking made by its Leadership in January.

The promises of the Leadership recorded in Ron Nessen's memo are the most explicit evidence of the gap between the assurances of action and the actual record. On the merits, though, from an energy standpoint it is fortunate that the Congress has not acted on the Pastore-Wright proposals, which would go in exactly the wrong direction for achievement of our necessary energy objectives.

October 17, 1975

MEMORANDUM FOR: FRANK ZARB

FROM: JIM CONNOR

The President has indicated that he would like to have Senator Humphrey's report to the nation of last January and the energy pamphlet provided by Pastore and Wright analyzed for promises that were made and not fulfilled. Both of these are attached, along with a copy of the Southern Governors' Resolution, and a copy of Ron Nessen's memo with some quotes in it.

Could you have someone in your shop look over all this material, and get back to me with an analysis which would show how vulnerable they are on fulfilling their promises and commitments. Thanks.

Enclss

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

October 5, 1975

MEMORANDUM

FOR: JIM CONNOR

F

FROM: DON RUMSFELD

The President indicated that he would like to have someone analyze the following:

1. Hubert Humphrey's "report to the nation" that followed the President's State of the Union Message this January.

attached

2. The energy pamphlet that was supplied by Pastore and Wright to the President in the Cabinet Room earlier this year.

attached

As I recall, there were a number of statements made in the Humphrey report to the effect that they should take "x" number of days to accomplish various things. That might be true of the energy pamphlet too. Have someone analyze those two things for the promises that were made and not fulfilled. The point being that it shows how vulnerable they are on their indications of when they can perform something in Congress.

Also, get a copy of the Southern Governors' Resolution proposing a consitutional amendment on balanced budget.

attached

The President would like all of these things Monday (October 6, 1975) morning.

Thanks.

THE WHITE HOUSE
WASHINGTON

Don R

We should have someone researching all Dem leader statements on Energy. Here are some but the Humphrey T.V. speech & anything else can be put together for a devastating speech when Nov. 15th comes.

Palmer + Wright

PROPOSALS TO PROTECT THE INTERESTS OF THE CONSUMER IN ENERGY POLICY

Monday, March 10, 1975

SUMMARY OF PROPOSALS

Purpose:

To ease the immediate economic burden of the energy policies on the ordinary consumer, while launching short and long range conservation efforts that fairly share the conservation and tax burden.

I. Domestic Oil Prices:

. Roll back domestic oil prices to a controlled range of $4.25 to a maximum of $7.00 per barrel.

II. Conservation:

A. Short range

1. Purchase authority which makes the government the only U. S. importer of foreign oil, combined with import quotas along the lines suggested by the Ways and Means Committee Energy Task Force.

2. Mandatory allocation utilized in distributing imported oil, and other fuels as covered by the "Emergency Petroleum Allocation Act," along the lines suggested by Representative Jim Wright and the House Democratic Task Force on Energy.

3. Gasoline supplies and gasoline use to be reduced by 5 to 6 percent below last year's consumption, through reduced importation of refined oils and reduced crude oil allocation to domestic refiners of gasoline:

B. Long range

1. Sliding scale excise tax on purchase of fuel inefficient vehicles and a sliding scale rebate on fuel efficient cars, along the lines proposed by Rep. Otis Pike's H. R. 1958.

2. Mandatory minimum auto efficiency standards, requiring all cars manufactured in the United States to meet a 20 mile per gallon mileage efficiency standard by 1980 and 25 miles per gallon by 1985.

3. Tax incentives for other forms of fuel conservation including residential and commercial installation of insulation, solar energy equipment, and other energy conserving investments.

4. Mandatory energy efficiency standards for appliances, residential and commercial building and transportation as well as other government regulatory reforms, similar to those proposed by the Wright Task Force and the Ways and Means Committee.

III. Utilities:

A. Permit no automatic pass through of higher fuel costs through a fuel adjustment clause without a public hearing on the issue.

B. Prohibit the Federal Power Commission from including the cost of Construction in Progress (CWIP) in the rate base of any utility which it regulates.

C. Prohibit the cost of [illegible] promoting advertising by utilities to be included [illegible]. The cost of such

D. Require the state public service commissions to establish "Lifeline" rates which would guarantee every family its basic electricity needs for a reasonable fixed price.

IV. Energy Taxes

A. No increase, either immediate or gradual, in the consumer gasoline tax or the imposition of additional import tariffs or excise taxes on fossil fuels.

B. Repeal of oil industry tax subsidies, including the immediate write-off of intangible drilling costs and the foreign tax credit for oil and gas production.

C. Repeal of utility industry tax subsidies, including the investment tax credit, the Asset Depreciation Range System (ADR), and accelerated depreciation.

PROPOSALS TO PROTECT THE
INTERESTS OF CONSUMERS IN ENERGY POLICY

Introduction

The proposals contained herein are part of an effort to help make sure that the interests of the ordinary consumer are protected in energy programs developed by the Congress. We do not intend to propose a comprehensive energy policy package or provide alternatives to every energy proposal made up to now.

We merely seek to recommend ways to ease the economic burden of energy policies on the ordinary American, while launching short range and long range conservation efforts that fairly distribute the burden of adjustment to the new era of energy scarcity.

We believe that such policies must include: (1) a lowering of energy prices to cost-based levels, rather than raising them to artificially high levels induced by the OPEC cartel; (2) an enhancing of competition rather than monopoly power in the energy industries. (3) a requiring that all sectors of the economy -- giant corporations as well as ordinary citizens and businessmen -- bear an equitable share of the energy conservation and tax burden.

President Ford's proposals do not meet these criteria and we believe that programs developed by the Congress that ([illegible]) differ in degree, but not direction, from the President's program deserves little support from the American people or from Members of Congress.

Many of the specific proposals we support are drawn directly from those developed by the Wright Task Force or the Ways and Means Committee. This is particularly true of our tax reform proposals and conservation plans. Others, such as our proposed oil price rollback and utility rate reform, have not been dealt with in previous Congressional energy packages. In both cases, we believe are proposals speak directly to the needs and interests of the ordinary American consumer and they deserve the careful attention of the Congress.

Pg 1 back

I. DOMESTIC OIL PRICING

Proposal: Roll back domestic oil prices to a controlled range of $4.25 to a maximum of $7.00 per barrel.

Provisions:

1. Within sixty days of the enactment of this legislation, the President shall establish price ceilings for the following categories of domestic crude oil: Oil produced from oil properties in production in 1972 or before shall be known as "old oil"; oil produced from other properties shall be known as "new oil". The ceiling price for old oil shall be $4.25 per barrel, provided, however, that the President may reclassify old oil production beyond the declining production curve for a given old oil property as "recovered oil," and establish an incentive price for the production of recovered oil based on cost of production plus a reasonable profit. The President shall control the price of new oil at the same level as the price of recovered oil.

When establishing the initial incentive price for recovered and new oil, and future changes in that price, the President shall report to Congress the projected effect of the chosen price on production of recovered and new oil and the projected effect of alternative prices at $.50 intervals between the chosen price and $4.25 per barrel. The report to Congress shall include supporting analyses and the data used to derive those analyses. The proposed incentive price for production of recovered oil and new oil presented to Congress by the President shall take effect within 15 working days after submission, provided that neither house of Congress has voted a resolution disapproving the proposed price.

Discussion:

This provision returns the price of old oil to the level in effect prior to the arbitrary $1 per barrel increase granted on December 18, 1973 by the Cost of Living Council and thereafter maintained by FEA in spite of a GAO report to Congress which found that the $1 per barrel was not justified by increased costs and would not increase the supply of oil. It also eliminates the expensive redundancies of the current system of overlapping incentives for secondary and tertiary recovery of oil provided by the exemption from price controls of stripper oil and new and released oil from old oil properties. It substitutes a more accurately aimed incentive price for secondary and tertiary recovery. The incentive price for production of recovered oil will also be available for production of new oil. This provision provides an opportunity for Congressional disapproval of a proposed incentive price for recovered and new oil. The need for this Congressional role has been demonstrated during the past year by the arbitrary pricing policies of FEA, which has permitted the OPEC cartel's monopoly price to set the price for 40 percent of our domestic crude oil.

2. There shall be an automatic pass through on a dollar-for-dollar basis to consumers and all other subsequent purchasers of any price reduction on refined petroleum products.

Discussion:

This section insures that consumers will share in the benefits of any reduced prices as a result of the rollback of the price of domestic crude oil prices.

Explanation: -Consumers simply cannot afford further increases in their energy bills.

-Prior to the drastic increases in oil prices of the last two years, the costs to the American Consumer were kept artificially low through tax breaks for the big oil companies. Now we have gone to the other extreme with the OPEC nations not only setting artificially high prices for their oil, but effectively raising the price of our domestic uncontrolled oil

-The effect of allowing the price of domestic oil to rise to OPEC levels will only succeed in making the United States more vulnerable than ever to OPEC political and economic influence through its pricing decisions. Instead of destabilizing the OPEC cartel, we would be making it possible for the cartel to destabilize our economy.

-As the oil companies extend their control over alternative fuels, the argument is increasingly heard that all fuels should be priced on their BTU equivalency, regardless of cost. In other words, all fuels should be priced so that the producer of the most costly fuel has an "incentive to produce" despite the windfall profits for the others. It makes no economic sense to allow the price of cheap domestic oil to rise just to make the production of expensive shale oil, for example, economic.

-The 93rd Congress supported a maximum of $7.09 per barrel in the Energy Emergency Act of 1974 which President Nixon vetoed.

-The report by the Interior Committee staff calculates that under the Ford plan a $1 per barrel increase in the world price of oil would cost consumers an additional $8.2 billion annually for energy ($2.4 billion to oil exporters, $2.6 billion captured by the government as windfall profits taxes, and $3 billion to domestic energy producers).

-OPEC might decide to lower the world price of oil after our domestic energy producers have made investments in domestic energy production based on the prevailing world price for oil. Administration strategists have already suggested that we protect against this eventuality by creating a floor price for energy that will protect investments in high cost energy sources from competition by lower priced OPEC oil. If we do create a high floor price for energy in this country, however, and the price paid for oil by other industrial nations drops below our floor price, we will begin losing our export markets as competing producers in other nations use their lower cost energy to produce their goods at a lower cost.

I. CONSERVATION:

A. Short Range

PROPOSALS: 1. Purchasing authority which makes the government the only U. S. importer of foreign oil, combined with import quotas, along the lines suggested by the Ways and Means Energy Task Force.

2. Mandatory allocation utilized in distributing imported oil, and other fuels as covered by the "Emergency Petroleum Allocation Act," along lines suggested by Representative Jim Wright and the House Democratic Task Force on Energy.

3. Gasoline supplies and gasoline use to be reduced by 5% to 8% below last year's consumption, through reduced importation of refined gas and reduced crude oil allocation to domestic refiners of gasoline.

EXPLANATIONS

1. Purchasing authority which makes the government the only U.S. importer of foreign oil, combined with import quotas, along lines suggested by the Ways and Means Energy Task Force.

   -- Quotas are a direct and effective means of limiting imports. Unlike the "price mechanism," quotas can enable the government to set a reasonable level of importation without raising oil prices.

   -- Quotas should only be instituted through a government purchasing authority. We cannot allow the major oil companies to control foreign policy and domestic commerce.

   -- The sealed bid approach has been recommended by Ways and Means as a method of undercutting the OPEC cartel. Producing nations will compete for access to the U. S. market.

   -- This program will allow the President to pursue his program of reducing the balance of payments deficit with respect to oil but will not raise the price paid by consumers. Additional import duties on imported oil would serve no purpose.

2. Mandatory Allocation utilized in distributing imported oil, and other fuels now covered under the "Emergency Petroleum Allocation Act," along lines suggested by Representative Jim Wright and the House Democratic Task Force on Energy.

-- Mandatory allocation could be used to eliminate the need for a gas tax. Allocation gives direct control over the amount of gas sold.

-- Gas retailers are already covered by a mandatory gas allocation program administered by FEA. Many station owners now receive more than 100% of allocation. To cut gas consumption, the Administrator could adjust the distribution formulas to gas suppliers.

-- The House Democratic Task Force has suggested such a program "down to the service station level," to reduce imports.

-- Oil introduced under the government import authority provision of this plan will also be sold according to allocation criteria mandated by the Congress. Distribution of this supply can be used to increase competition in the domestic oil industry, to insure that U. S. refineries operate at efficient levels, to allocate fuel supplies equitably to all geographic regions, and for other purposes.

3. Gasoline supplies and gas consumption reduced by 5% to 8% below last year's consumption, through reduced importation of refined gasoline and reduced crude oil allocation to domestic refiners of gas.

-- Gas retailers recently testified, before the Senate Interior Committee, that they could easily adjust the hours of operation over a year's time to reduce gas consumption without long lines and without confiscatory conservation taxes.

[illegible] 10% [illegible]

-- Reduced gas sales would not stagnate domestic exploration or production if the conservation cutback is directed at imported sources of crude or refined gas.

-- U.S. refiners can reduce their production of gasoline by 5% to 8% without disruption of the refining process, and without causing shortages of other refined products.

-- The House Democratic Task Force on Energy reported that we consume 7 million barrels per day in gasoline. A 6% reduction in gas usage would mean 420,000 barrels per day; 8% would mean 560,000 or one half of the

President's target reduction of one million barrels per day.

-- The President's immediate goal is reducing imports by one million barrels per day below projected demand.

B. <u>Long Range</u>

PROPOSALS:

1. Sliding scale excise tax on purchase of fuel-inefficient vehicles and a sliding scale rebate on fuel-efficient cars, along the lines proposed by Representative Otis Pike's H.R. 1950.

2. Mandatory minimum auto efficienty standards, requiring all cars manufactured in the United States to meet a 20 miles per gallon mileage efficiency standard by 1980 and 25 miles per gallon by 1985.

3. Tax incentives for other forms of fuel conservation including residential and commercial installation of insulation, solar energy equipment, and other energy conserving investments.

4. Mandatory energy efficiency standards for appliances, residential and commercial building, and transportation, as well as other government regulatory reforms, similar to those proposed by the Wright Task Force and the Ways and Means Committee.

EXPLANATIONS:

1. Sliding scale excise tax on purchase of fuel-inefficient vehicles and a sliding scale rebate on fuel-efficient cars, along the lines proposed by Representative Otis Pike's H.R. 1956.

   -- Increasing the fuel efficiency of automobiles must be a top priority for holding down energy consumption in the long run.

   -- Because the potential for immediately improving auto efficiency is limited (most cars stay on the road more than five years), these tax incentives would promote a gradual shift to more energy efficient vehicles.

2. Mandatory minimum auto efficiency standards, requiring all cars manufactured in the United States to meet a 20 miles per gallon mileage efficiency standard by 1980 and 25 miles per gallon by 1985.

   -- The minimum projected fuel savings by 1980 from this standard is 040,000 barrels a day.

   -- The standards should be mandatory, rather than voluntary as the Administration proposes, to guarantee they are carried out.

   -- This proposal allows the auto manufacturers the time they need (five years) to retool the maximum possible fuel saving that is technologically and economically possible.

3. Tax incentives for other forms of fuel conservation including residential and commercial installation of insulation, solar energy equipment, and other energy conserving investments.

   -- Such incentives would give an economic boost to the required long shift to more energy efficient technologies throughout our economy.

4. Mandatory energy efficiency standards for appliances, residential and commercial building, and transportation, as well as other government regulatory reforms, similar to those proposed by the Wright Task Force and the Ways and Means Committee.

   -- To guarantee a reduction in the growth of energy demand in the future we must institutionalize the conservation ethic through mandatory standards and regulatory reforms.

UTILITIES

PROPOSALS:

1. Permit no automatic pass through of higher fuel costs through a fuel adjustment clause without a a public hearing on the issue.

2. Prohibit the Federal Power Commission from including the cost of Construction Work in Progress (CWIP) in the rate base of any utility which it regulates.

3. Prohibiting the cost of image promoting advertising by utilities to be included in the rate base. The cost of such advertising should be borne by the stockholders.

4. Requiring the state public service commissions to establish "Lifeline" rates which would guarantee every family its basic electricity needs for a reasonable fixed price.

EXPLANATION:

1. No automatic fuel adjustment clause.

--Most state utility commissions allow power companies to increase rates according to increased fuel costs without holding public hearings. This procedure has led to a number of abuses which have all resulted in higher prices to the customers. For example, unnecessary costs have been included in the fuel adjustment clause.

Companies which own their own coal companies have been known to charge themselves higher prices for their own coal, passing on the higher costs through the fuel adjustment clause. In addition, oil suppliers frequently break long term supply contracts with utilities and charge higher prices, and the utilities rarely take the suppliers to court because they can pass the increase in price on to the consumer.

--Aside from eliminating some of the aforementioned abuses, prohibiting any automatic pass through will provide utilities with an incentive to shop for the cheapest fuel, an incentive which is currently lacking.

2. <u>Prohibiting the FPC from including the costs of CWIP in the rate base of the utilities it regulates (those that sell bulk electric power).</u>

Permitting the inclusion of CWIP costs has several undesirable consequences.

--It would enable utilities to build unnecessary power plants and charge their cost to the consumer.

--It would remove any incentive to complete new plants without delay. If the plant is earning a rate of return without producing power for consumers, there would be little incentive to push it along.

--It would cause electric rates to increase.

--It would encourage inefficiency, waste, and increased consumption, rather than encourage the desperately needed conservation of energy.

Establishing this standard for utilities regulated by the FPC would be an important example to state public service commissions.

3. Shifting the cost of advertising to stockholders.

For years, utilities have advertised to increase the consumption of their product and were permitted to include this expense in the rate base. With the advent of the "energy crisis", most promotional advertising to increase the consumption of electricity has been discontinued, but rate payers are still financing image promoting public relations. In a time when utility customers are already bearing more than their fair share of the burden of inflationary prices, we believe that if the utilities want to advertise in this manner, the stockholders should be responsible for funding such activities.

4. Establishment of "Lifeline" rates.

Lifeline legislation will accomplish three important reforms in the short run.

--It will provide immediate relief for those people who have been hardest hit by inflation and the "energy crisis" - the elderly on fixed incomes and the poor, both working and not working.

--It will gradually shift the burden of higher rates to large users, who currently pay the lowest rates. This is an important first step in hopefully further reform of the present discriminatory rate structure.

--It provides an incentive to conserve energy. Lifeline would set an amount for basic necessities which represent present inelastic demand -- people will use that amount no matter how much they conserve. They will be charged for electricity consumed beyond that amount at increasing rates - thus providing an incentive to set consumption as close to the lifeline amount as possible.

Language should also be included in such legislation to restrict precipitous utility service cutoffs by requiring prior notice and other appropriate protection for consumers.

IV. ENERGY TAXES:

PROPOSALS:

1. No increase, either immediate or gradual, in the consumer gasoline tax or the imposition of additional import tariffs or excise taxes on fossil fuels.
2. Repeal of oil industry tax subsidies, including the immediate writeoff of intangible drilling costs and the foreign tax credit for oil and gas production.
3. Repeal of utility industry tax subsidies, including the investment tax credit, the Asset Depreciation Range System (ADR), and accelerated depreciation.

EXPLANATION:

1. No increase, either immediate or gradual, in the consumer gasoline tax nor the imposition of additional import tariffs or excise taxes on fossil fuels.

   -- The average family simply cannot afford another increase in taxes or in the cost of fuel. Although the American people used less oil, gas and coal in 1974 than in 1973, the prices we paid for it more than doubled. And a study by the Joint Economic Committee, released last month shows that taxes (federal, state and local) on the average family rose faster last year than any other part of the family budget -- 31% for a family of four earning $9,320.

-- We do not need to raise taxes on the consumer, either in the short term or the long term, to conserve fuel. Mandatory allocation with a specific percentage reduction goal will do the job in the short term (as the Wright Task Force pointed out) and structural conservation requirements such as mandatory minimum auto mileage standards should be the focus of our long term strategy.

2. Repeal of oil industry tax subsidies, including the immediate writeoff of intangible drilling costs and the foreign tax credit for oil and gas production.

-- On equity grounds, oil industry loopholes, in addition to the depletion allowance, should be removed simply because oil industry profits are grossly under taxes. The federal corporate income tax rate is 48%. The average American corporation pays about a 44% effective tax rate; in 1973, the big oil companies paid an average effective tax rate of less than 5%.

-- In economic terms, tax loopholes for the oil industry simply subsidize the price of oil and thereby encourage waste. The enormous tax subsidies given to the industry over the past 50 years has been a major reason for the artificially low prices we used to pay for oil products. If we are serious price of oil reflect the real cost of production --- not more, but not less either.

3. Repeal of utility industry tax subsidies, including the investment tax credit, the Asset Depreciation Range System (ADR), and accelerated depreciation.

--- Equity again demands closing utility industry loopholes simply because, compared to other business and individuals, utilities are generally grossly undertaxes. In 1973, 39 electric power companies, almost 1/5 of the 217 major power companies in the country, paid no federal income tax at all. And the average for those who did pay some taxes was below 15% (the statutory rate is 48%).

--- Economically, these tax subsidies tied to capital investment can go only three places --- to consumers in lower rates, to stockholders in bigger profits, or to capital investment the utilities would not have made other wise. None of these uses of the money is economically beneficial. Under federal laws, savings from these tax loopholes may not be passed on directly to the consumer; thus they go either into profits or into new construction. Under state utility regulation laws, state regulatory agencies are required to allow the utilities to charge rates high enough to pay for needed capital expansion and to allow a rate of profit leapfrogging the normal regulatory processes, these tax subsidies can provide unnecessary capital investment or windfall profits. Moreover, the entire structure of public utility regulation (guaranteeing the companies a fair rate of return on their capital base) promotes maximum capital investment compared with other inputs (labor, fuel, etc.). Indeed, most utilities are still pressing for annual rates of growth in demand of 7%, while studies by the Ford Foundation and the Rand Corporation indicate that much lower annual growth rates, perhaps in the range of 2-5%, are more realistic. Last year, for example, demand grew only 1%.

-- In practical terms, these loopholes, especially the increase in the investment tax credit, will have little or no effect for good on the legitimate capital needs of the utilities.

-- Many of the big utilities that are in real trouble don't pay any taxes right now. New York's Con Ed, for example, hasn't paid any federal income taxes in six years. And obvious tax breaks aren't of any help at all to utilities that don't make a profit. Thus, these loopholes provide maximum benefit to the healthiest and most profitable utilities -- those least in need of government handouts.

COMMONWEALTH of VIRGINIA

Office of the Governor
Richmond 23219

...win, Jr.

September 29, 1975

The Honorable Gerald R. Ford
The President
The White House
Washington, D. C. 20500

Dear Mr. President:

I am enclosing copies of the resolutions adopted by the Southern Governors' Conference during its 41st Annual Meeting on September 14-17, 1975. These are selected resolutions that should be of particular importance to you.

Your careful consideration of these expressions of Governors of the Southern States and actions they consider important and urgent will be genuinely appreciated.

Sincerely,

Mills E. Godwin

Mills E. Godwin, Jr.
Chairman, Southern
Governors' Conference

jm

Enclosures - Resolutions 1, 2, 3, 5, and 7

1. ECONOMIC POLICY

The major social, economic and environmental problems faced by the Southern States must be viewed as problems of human existence that can be resolved through a continuing commitment on the part of government and the private sector to vigorous and orderly economic growth. We recognize that economic growth is vitally needed in the South to provide jobs, which in turn upgrade the quality of life for all our citizens by increasing their living standards. Continued economic growth also is needed to pay for cleaner air and water, and to support those segments of the population that are unable to work.

We unequivocally reject the arguments of those who would eliminate or severely curtail continued economic growth. The continued vitality, indeed the very preservation of the quality of Southern life, depends on continued growth and economic prosperity. Moreover, in helping the disadvantaged, economic growth has helped millions lift themselves out of poverty.

This commitment to growth should not imply that we are unconcerned or ambivalent about the threat to the South's environment and the region's bountiful natural resources. We are convinced that the South and the nation can continue to enjoy the prosperity promised by continued growth, and at the same time protect our land, water, air and natural resources.

To ensure that growth is compatible with the protection of the region's environment and the preservation of our cultural heritage, the States must take strong action to manage and direct future growth and development. Through the design and implementation of realistic growth management policies, we believe the Southern States can enjoy the benefits of economic prosperity and a healthy, attractive environment.

A. Productivity

The rate of productivity growth in the U. S. has declined during four of the past six years. This decline has contributed to inflation, economic stagnation and increasing unemployment. Since 1965 the rate of productivity growth in the U. S. has been consistently lower than that of many industrial nations in the world, adversely affecting the competitive position of the U. S. in world markets.

These national trends are replicated in the South. Growth in productivity of the economy of the U. S. and the South is essential to the social and economic welfare of the people and will assure increased employment, help stabilize the cost of living and provide job security.

Several factors affect the growth of productivity in the economy including applications of technology and improved management tools. Key to any improvement is the need to upgrade the quality of working life. Several needs exist which, if met, will assure continued productivity growth and concomitant benefits:

1. Capital, labor, materials and energy must be utilized in a cost effective manner within the private sector.

2. Revenues must be applied in a cost effective manner by the public sector.

3. All levels of government must work to create upgraded employment opportunities for their citizens.

The Southern Governors express unified and deep concern over the adverse economic impact of both the ever-growing size of the Federal Budget and this nation's chronic pattern of deficit spending.

It has become increasingly clear to all that:

First...large, growing, and continual deficits not only encourage inflation, but are one of the major causes of inflation.

Second...due to the very size of Federal government spending, there are insufficient capital resources remaining in the private sector to insure creation of an adequate number of jobs and increase the productive capacity of our nation.

We endorse the concept of a federal constitutional amendment requiring a balancing of the federal budget within a specific multi-year period, providing for a temporary suspension during war or national economic emergency, with such temporary deficit to be repaid within a period of 20 years, and providing for the granting of standing to any State to bring suit to secure compliance with the amendment.

We also recognize that the States must bear part of the responsibility for creating pressures resulting in excessive federal spending, and we pledge our best efforts to support the spirit of this amendment by restraining our own demands for federal spending.

Therefore, the Southern Governors' Conference resolves that a task force be created to draft, circulate, and promote a proposed constitutional amendment that will limit excessive Federal government spending and the national debt.

3. REVENUE SHARING

Some critics are urging Congress not to extend the State and Local Fiscal Assistance Act when it expires at the end of next year. Others have proposed that federal revenue sharing be continued, but in some reduced or modified form. A suggestion sometimes heard from critics of the program is that the Federal government continue to share its revenues with local governments, but that in the future state governments be excluded from formulas for sharing the Nation's tax dollars.

Revenue sharing has played a vital role in improving the capabilities of state governments to handle their increased responsibilities under our Federal system. By allowing the States to allocate some of the Nation's tax revenues based on their own perceived needs and priorities, revenue sharing has been a major contributor to improving the planning, budgeting and overall management capabilities of state government.

Moreover, in these turbulent years of both chronic inflation and recession, federal revenue sharing has played a major role in enabling those of us whose States have been hard hit by economic forces beyond our control to avoid new tax burdens on our citizens and at the same time maintain the provision of vital public services at existing or near-existing levels.

Therefore, we strongly urge the Congress and the President to maintain the present relationship between state and local governments under general revenue sharing in order to strengthen the intergovernmental fiscal and policy-making partnership that is an absolutely crucial ingredient to the continued success of our federal system.

The Southern Governors' Conference recognizes that the United States needs a national goal for an aggressive expansion of world trade; and, furthermore, the Conference recognizes that the Southern States offer to the world an abundance of food, fiber, timber, and manufactured products which are in demand worldwide.

The Conference proposes a national policy to transform the role of the United States in foreign trade from that of an order-taker to that of an aggressive seller.

The Conference notes that a policy to penetrate the world market by at least an additional 1% during the coming year could produce $8 billion and generate 400,000 new jobs.

The Conference calls upon the President and the Congress to require our foreign offices to give higher priorities to aggressive commercial activities and to furnish them with more technical support and better staffing. We urge the President and the Congress, through available investigative means, to determine existing problems and to seek out possible solutions to the commercial activities of our foreign offices.

The Conference also recognizes the role of the States in foreign trade and requests the Federal government to provide greater assistance and support of the States' foreign trade efforts.

The Conference urges its member States to develop their own tools to penetrate overseas markets, and to develop a system of cooperation and information exchange aimed at giving the Southern States collective strength in taking advantage of their potential in foreign trade.

7. ENERGY POLICY

The Southern Governors hereby submit this statement as an expression of their unified concern over this nation's continuing energy problem.

Findings

*Federal is not a synonym for National; national policy is the product of a process that involves all levels of government and the private sector.

*Energy is a necessary component of economic and social activity within our States.

*Its limited availability affects every segment of society.

*It is the proper role of the States to participate in the development and implementation of a coordinated national energy program. It should be the primary goal of the national program to minimize losses and inequities resulting from any energy shortage through proper planning and through the establishment of priorities of end uses.

*Solutions to the energy problem can best be resolved by joint federal-state action. It is recognized that certain problems affecting the nation as a whole, such as threats to national security and long-range research and development, are better addressed by the Federal government. However, in the formulation of a comprehensive energy policy it is necessary for the States and the private sector to be accepted as parties.

*Federal energy programs often impose fiscal burdens on state and local governments. These costs should be borne by the Federal government.

*The imbalance between supply and demand will continue for the next several years.

*The energy shortage will not be alleviated unless 1) current domestic energy supplies are intelligently expanded, and 2) energy usage — encompassing life styles and economic activity — becomes compatible with limited supplies.

*The most effective short range solution to the problem is conservation.

*Long-range conservation measures will provide the lowest cost means of matching energy demands with supplies.

*Conversion of many present uses from natural gas to other primary fuel sources can cause serious economic dislocation. However, natural gas is a precious resource and substitutes should be used whenever possible.

*Natural gas and refined petroleum products are vitally important as feed stocks for our nation's petrochemical industry. Natural gas is also an essential feedstock to produce fertilizers, which are in short supply.

*Mandatory allocation programs are inherently unworkable except on an emergency short term basis. Such forms of energy management unfortunately may prove necessary if present efforts to expand domestic supplies and curb consumption do not succeed. The convergence of domestic energy supply and demand must not be achieved at the cost of desirable environment, health, and safety standards; nor must the poor and fixed-income citizens suffer undue hardship from any market method of rationing limited energy resources.

*Some degree of imports of petroleum and refined products are necessary and will continue to be necessary for the foreseeable future.

*Long range research and development designed to develop and to improve environmentally acceptable energy sources must be accelerated.

*A fundamental research and development priority must be directed to more efficient use of energy, involving compatability of the economy with limited resources.

*A public information program explaining the current energy problems and the needs of the future is a necessary cornerstone of any energy program.

Statement of Policy

We believe that the following 16-point policy will aid in the approach to energy stratagems to meet our regional and national goals:

*We call upon the President and Congress to cooperate with the Governors in the immediate development of a national energy policy, to be implemented in a coordinated manner.

*We call upon the Federal government to work with the States to inform the people of the true nature and extent of our current energy problems.

*Present energy data are sadly lacking in uniformity, comprehensiveness, and reliability. We call upon the Federal government to establish uniform data gathering procedures to insure that sound data are available to guide energy policy at all levels of government.

*We affirm that the majority of the cost incurred in formulating and implementing a national energy program is the responsibility of the Federal government. We call upon the Congress to cooperate with the Executive in formulating legislation to reimburse States for past and future expenses incurred in developing, implementing and administering national energy conservation, production, and allocation programs.

*Additional revenues which the Federal government procures by levying of taxes or tariffs should be partially reimbursed to the States for energy related uses.

*We recommend that the Federal government allow the States greater flexibility in the use of highway trust funds to respond to other transportation needs.

*A thorough cost-benefit analysis of all government programs which impact on energy should be accomplished.

*We support, as part of a national energy policy, a provision which would encourage the most efficient use of our energy resources in all possible circumstances, including the provision of positive and/or negative incentives to industry, business, and the general public, (e.g., tax rebates for solar installations or excise taxes on inefficient autos).

*We state that any federal energy policy must ensure that any State or region not bear a disproportionate share of the burden resulting from a change in existing supply patterns, providing that all reasonable steps are taken to conserve available energy and develop potential energy sources.

*Energy policies must be developed in an equitable manner to insure that no single State or region should suffer undue hardships.

*We recognize that a goal of complete self-reliance upon domestic fuel sources is a desirable, but at best, a long-distance goal.

*We call upon the Federal government to provide adequate funding for long-range energy research and development projects.

*We affirm that the States must have a voice in determining priorities for federally-funded research and development, and that the mechanism for that purpose be formally established in the review process.

*We submit that specific research and development priorities include, but are not limited to:

Near Term

1) exploration and recovery techniques
2) industrial technologies that produce goods efficiently, encourage recycling of component materials, and encourage product durability
3) energy transmission techniques
4) oil shale and gas shale conversion technology
5) in-place coal gasification
6) transportation efficiency (e.g., mass transit)
7) total energy systems, use of "waste" heat
8) energy conserving lifestyle changes
9) building design and residential environmental controls
10) coal cleaning
11) feasibility of nuclear energy parks
12) the technical siting advantages of high temperature gas reactors
13) synthetic fuel production (methanol, gas, oil) through bioconversion
14) elimination of institutional barriers to solar heating and cooling of buildings
15) evaluation of utility rate structures and load management techniques to discourage wasteful consumption and the inefficient use of generation capacity
16) data gathering procedures
17) a study of the technical, economic, and time constraints for those major industries that will convert from our scarce oil and gas fuels to more plentiful substitutes

Long Term

1) coal gasification and liquefaction
2) breeder technology
3) solar energy use
4) geothermal energy
5) controlled thermonuclear fusion
6) fuel cell technology
7) magneto-hydrodynamics
8) wind and tidal power
9) ocean thermal gradients
10) transportation efficiency, including modal shifts
11) state and local planning for energy efficiency
12) use of fly wheels and other improved energy storage technologies

*It is our policy to set examples within state government for the wise use of energy resources.

*We affirm that it is our policy to disseminate credible and factual information on energy related matters through the focus of our high elective offices.

Specific Action Goals

Together with the above policy, we offer the following specific recommendations to be carried out by state or federal agencies which can affect either the supply of or demand for energy. They represent elements of a comprehensive national program of partnership by the State and Federal governments toward achievement of compatible state, regional and national goals.

SUPPLY

1. The States agree on the need for immediate encouragement of exploration and production for oil and natural gas. Such encouragement should include associated research and development, including techniques for in-place gasification of coal and methods for increasing the recovery rates of oil and natural gas without a loss of ultimate recovery.

2. We encourage the fostering of a better economic climate for investment aimed at increasing the supply of domestically produced fuels.

3. The Federal government should institute the phased deregulation of oil prices, thereby encouraging efficiency of use and penalizing waste. We submit that the existing system is grossly inefficient and that deregulation would stimulate suppl and bring demand closer into bounds.

4. Federal price policies have undervalued interstate gas with respect to other fuels which has resulted in lower incentives for exploration, artificially high demand, and few incentives for conservation.

The Southern Governors' Conference urges Congress to act to minimize and alleviate the adverse impact of shortages of natural gas on the American people and the domestic economy and to enhance the domestic supply of natural gas by:

Authorizing the Federal Power Commission to deal with existing and imminent shortages of natural gas which jeopardize the national economy, public health, safety and welfare by granting a 180 day exemption for emergency sales of natural gas for resale in interstate commerce; and,

Exempt from regulation producer sales of natural gas in interstate commerce for all new natural gas and all existing natural gas contracts subject to renegotiation within a period of five years from the effective date of enactment by Congress. The effect of such exemption shall be reviewed and evaluated by the Congress at the end of the five year period.

5. A vital part of any deregulation program must be a provision for an excess profits tax which allows tax credit for profits reinvested in energy production and exploration. Revenues generated by such a tax should be used to mitigate the impact of price increases on low-income consumers or to shift to alternative fuels.

6. We concur in the President's decision to speed leasing on the Gulf Outer Continental Shelf and urge the Department of Interior to advance its schedule for leasing on the Outer Continental Shelf, under appropriate environmental safeguards. Legislation should provide that the Federal government receive fair market values for these leases, that the States be compensated with sufficient revenues to cover net adverse budgetary impacts and any additional planning and regulatory responsibilities resulting from the exploration and production activities, and that the States should be active participants in the formulation of leasing and drilling plans and in the drafting and enforcement of environmental standards.

7. All regulations which constrain the extraction, development, transmission, and use of any fuel should be reexamined in light of their effect during a period of fuel shortage.

8. Wherever economically and environmentally feasible, the more plentiful fuels such as coal, lignite and solid waste should be used by major industry, including electric power generation. For accomplishment thereof, we advocate the investigation and evaluation of efficient bulk transmission facilities such as coal slurry pipelines and unit trains, as well as alternative technologies such as gasification or liquefaction.

9. We recommend the study of alternative ways of ensuring land availability for energy transmission systems within the States, including the use of the power of eminent domain and advance reservation of rights of way.

10. The siting of power plants and refineries should be considered by the States at a regional level rather than State by State.

11. We recognize an immediate need for additional refining capacity, and submit that state policies should be established to encourage construction and expansion of refineries in those States, where such policies would be internally consistent with other policies.

12. We support steps at the state and federal level leading to the more expeditious siting and licensing of nuclear power plants.

13. Those fuels with a long history of wide use within a State for special purposes should not be subject to interruption or discontinuation until either a firm supply is assured from other sources or until alternative fuels are available.

14. We affirm that the energy producing States will make every effort to ensure that consuming States suffer minimum hardships from fuel shortages, when such fuels are available for interstate exportation.

15. Solar energy is an alternative energy source that can play an increasingly important role in supplying our nation's energy needs. The Southern Governors commend the Congress and the Administration for increasing the priority and financial commitment to solar energy research and development.

However, appropriations for solar energy research and development fall far short of the commitment necessary to make the widespread use of solar energy systems a practical reality in the near future. Increased emphasis must be placed on developing viable means of using solar energy and especially on the early introduction of new solar energy technology into the marketplace.

The Southern Governors recognize the need for and strongly urge the Congress to pass legislation providing tax incentives and low-interest loans to small businesses, builders, and homeowners for solar energy systems. We suggest that Congress quickly implement tax credits for the installation of solar equipment. The Southern Governors also call for an increased commitment to the early demonstration of solar energy systems in both the public and private sectors.

DEMAND

1. We encourage the design of energy efficient state buildings and full consideration by state purchasing departments of energy efficient and cost effective purchases of equipment, including examination of life-cycle costs when comparing purchases. Implicit in this recommendation is the urging of conservation measures upon all state agencies and their employees.

2. We recommend that States take the lead in encouraging voluntary programs for energy conservation encompassing industries, local governments and all citizens of the State.

3. We recognize that it may be necessary to institute affirmative programs, especially in light of federal inaction, which would result in a reduction of energy demand. We can suggest several programs which should be studied including: a) the development and implementation of energy conserving building codes; b) appliance labeling providing the consumer with better information by which to choose his purchases; c) enforcement of life and energy savings speed limits; d) reform of traffic laws for better flow, including "right-on-red" laws; and e) establishment of economic incentives and/or disincentives for energy conservation.

4. We recommend greater development and wider use of public transportation systems, including mass transit as a means of conserving large quantities of fuel and improving environmental quality.

5. Since energy shortages may give rise to energy emergencies affecting the health and welfare of a State's citizens and natural or man-made disasters may occur involving special energy needs, such potential energy emergencies should be considere by state contingency plans.

6. The problems of liquid petroleum gas are already causing special concern, and it should be considered as a separate and distinct category in any fuel program.

ruptcy of such advocates was revealed by a professor at Johns Hopkins University, who proudly described why a Middle East war would be "feasible." On what does he base his "moral" judgment? He bases it on the fact that the gulf coastal region, extending from Kuwait to Qatar "is without trees" and, therefore, "does not bear even remove comparison with the experience of Vietnam." I believe that the term I first used in October 1973—"Vietnam doves, Middle East hawks"—is definitely illustrated here. It also reveals some of the moral basis of those who so violently oppose any efforts to prevent Communist enslavement, but who so blithely talk of conquering small countries, because they have a natural resource we want and which we have refused to develop in our country.

It is also interesting to note that so many of those Americans who are anti-Arab are also anti-Department of Defense. Their actions over the past years have so weakened our military capability that the U.S. Army is having to take tanks out of present inventory for shipment to the Middle East. Mr. President, I ask unanimous consent that an article by John W. Finney from the New York Times of November 20, 1974, be printed in the RECORD at the conclusion of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mr. McCLURE. It will explain in more detail the serious connection between our own military defense capability and the Middle East.

And, in case there are those who believe that this present demand for American equipment will end, I ask unanimous consent that an article from the Washington Post of January 21, 1975, be printed in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 2.)

Mr. McCLURE. This article states that the Israeli Government is "seeking $1.5 billion in military aid in the form of credit or grants." The article continues that this—

• • • is part of an Israeli drive to get $1.5 billion during *each* of the next *three years*. (Emphasis added).

Mr. President, it is disturbing to me personally that it is even necessary for an American to stand up and publicly state he is opposed to invading an Arab nation and stealing their oil. The immorality of such a proposal is so evident that I would have expected an outpouring of protests from Government leaders and those in private life who have so violently protested against war in the past. That such an outpouring has not occurred is a serious disappointment, not just for myself, but, I believe, for all decent Americans. I hope that these remarks today—and those of others who share my concern—will help set the United States firmly in the path of law and justice, lest that small minority desiring Middle East war succeed in their efforts to make a mockery of the principles on which this Nation is based.

EXHIBIT 1

PENTAGON OFFICIALS SAY THAT INCREASED ARMS SHIPMENTS TO ISRAEL LEAVE SOME U.S. MILITARY UNITS SHORT

(By John W. Finney)

WASHINGTON, November 19.—The Defense Department for the first time is finding it difficult to satisfy Israeli requests for armaments and at the same time meet the needs of United States forces.

Inevitably, according to Pentagon officials, the readiness and training of the armed forces have been impaired as weapons in short supply are sent to Israel. But the officials emphasize that the ultimate judgment on how to strike a balance rests with the White House and the National Security Council.

According to officials, tanks are being diverted to Israel from Army and National Guard units that are already short of their established quotas.

An example is the First Battalion of the 210th Armored Brigade, a National Guard unit based in Albany. Representative Samuel S. Stratton of New York, a Democratic member of the House Armed Services Committee, said he had been informed by the Pentagon, after having received protests from National Guardsmen, that the battalion had been ordered to turn over 43 M-48 tanks, which it had received only last year.

The same problem, according to officials, is arising with other weapons that are in short supply, such as TOW antitank missiles, "smart" bombs and late models of the F-4 fighter plane.

It is this diversion of arms supplies that helps explain the outburst of Gen. George S. Brown, the chairman of the Joint Chiefs of Staff, against the power the pro-Israel lobby has in Congress, according to the general's associates.

In describing the influence of the Israel lobby in a speech at Duke University, General Brown said:

"We have the Israelis coming to us for equipment. We say we can't possibly get the Congress to support a program like this. And they say, don't worry about the Congress, we will take care of Congress."

Air Force associates are still perplexed about why General Brown lapsed from such observations into statements that Jews own "the banks in this country, the newspapers." After an off-the-record meeting yesterday with Defense Secretary James R. Schlesinger, Jewish leaders appeared prepared to accept General Brown's apologies and not press for his dismissal.

In the past the Defense Department could rely on surplus stocks and current production to meet overseas aid requirements. But the situation changed after the Arab-Israeli war last year.

Israel, which had been purchasing on credit about $300 million worth of arms a year, increased her requirements to $2.2 billion worth of arms this year as she sought to reequip her armed forces.

The Pentagon has had to turn to its war reserves as well as equipment in regular and reserve units to provide the arms.

The Pentagon's problem in balancing its own requirements for modernization against Israeli requests is best illustrated in the case of tanks.

The army has an authorized equipment of 10,000 tanks about 8,500 for regular and reserve units and 1,500 for the war reserve. This requirement was increased by nearly 800 tanks as a result of lessons on attrition learned in the Arab-Israeli war.

The Army now has 8,150 tanks, nearly 5,000 of them the new M-60 tanks and the remainder older M-48 tanks. At the current rate of production of 40 tanks a month, the shortage of 1,850 tanks represents more than three years of production.

Meanwhile, according to officials, Israel wants 600 tanks this year on top of 450 tanks that have been shipped by the United States since the war last year. The Pentagon has no way of fulfilling Israeli orders except by taking tanks out of the present inventory, thus postponing the day when the army will meet its authorized strength in tanks.

The Pentagon's problems are further compounded by difficulties in inducing manufacturers to increase tank production to 80 a month, largely because of a shortage of capacity to make the castings for the tanks.

EXHIBIT 2

ISRAELIS ASK AID OF $2 BILLION

Israel has placed a request for $2.2 billion in military and economic assistance from the United States for the fiscal year to begin July 1.

Israeli and American sources said that of the total, Israel is seeking $1.5 billion in military aid in the form of credits or grants. This is part of an Israeli drive to get $1.5 billion during each of the next three years from the United States to build its military strength.

The request was submitted in Israel about 10 days ago and was discussed by Israeli Foreign Minister Yigal Allon during his visit here last week. At a press conference on his departure, he said that his talks here had been fruitful and that he was leaving satisfied with the results.

U.S. officials said the Israeli request is under study.

This year Israel has received approximately $600 million in economic and military aid from the United States. It also has been receiving what remains of the $2.2 billion appropriated during the October, 1973, war.

Israeli sources characterized the request, which amounts to almost three times that appropriated during the current fiscal year, as a preliminary request. The United States has pledged that it would give high priority to Israel's aid requests. Secretary of State Henry A. Kissinger has frequently expressed the conviction that Israel is more likely to be flexible if it feels secure than if it is concerned about its military and economic needs.

Like many other countries, Israel is suffering from very high inflation and balance of payments problems. These are, of course, exacerbated by the high cost of new and sophisticated weapons which Israel is seeking for its arsenal.

RESPONSE TO THE PRESIDENT'S ECONOMIC AND ENERGY MESSAGE

Mr. HUMPHREY. Mr. President, last evening I had the privilege to present a part of the Democratic response, on nationwide television, to President Ford's recent economic and energy message.

In my remarks, I noted that the first priority for congressional action will be a major tax reduction. However, I pointed out that Congress must pass a tax cut measure that is substantially larger and more equitable than that proposed by the President.

My response also addressed the energy tax plan the President has proposed and spelled out the specific inadequacies in this approach. Congress is considering a range of alternatives that make a great deal more sense than raising energy prices to our people by from $45 to $50 billion.

I also focused on a number of additional areas in which prompt and decisive action is needed to restore good health to our economy and prosperity to our people.

I outlined specific steps to deal with high interest rates, inflation, the housing depression, and, most importantly, unemployment.

Mr. President, Congress must take the lead, in cooperation with the President, in forging a national economic policy that will break the back of recession and put America back to work.

I ask unanimous consent that the text of my response to President Ford be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

REMARKS BY SENATOR HUBERT H. HUMPHREY

RESPONSE TO PRESIDENT'S ENERGY, ECONOMIC MESSAGE, JANUARY 22, 1975, BROADCAST ON CBS-TV

Good evening.

If it were possible for you to talk with me tonight, I think I know what you'd probably say.

"No more speeches, Mr. Humphrey. In the past months all we've heard are words. What we want is some action."

Well if that's your message to me, I hear you loud and clear.

Both Congress and the President have wasted valuable time in getting our economy soundly on the road to recovery. There's no sense denying it. And it's futile arguing over who's more to blame.

We can't change the past. But if you can stand one more speech, I believe you'll be surprised to learn what Congress is planning for the immediate future . . . the decisive action that is long overdue.

I can report broad agreement among Congress and the President as to the need for an individual and corporate tax cut—to stimulate purchasing power, to accelerate business investment, to lower unemployment, to restore economic growth. Moreover, this tax cut can be a reality within four to six weeks.

Until the President's remarks last week, our country was like a seriously ill person whose doctors in the Executive Branch and Congress could agree on neither the diagnosis of the illness nor the proper treatment. President Ford initially proposed a curious remedy—his five-percent surtax. A tax increase in the midst of recession would have bled the country of its economic strength, weakening the patient still further.

Fortunately, Congress rejected this remedy. But while the doctors were arguing over the cure, the patient's health deteriorated rapidly.

At last, the doctors agreed on the source of the disease—the most serious recession since World War II—and at least part of the proper treatment—a large dose of economic penicillin in the form of tax cuts to bring the patient back to full health and normal activity.

The first action of this Congress must be a tax reduction for individuals and business. This can and must be done in the next 30 days.

We have now only to decide on the size and frequency of the tax cut and—most importantly—who gets the benefits.

Under the President's tax cut plan, a family of four with an income of $10,000 a year would receive only $100. Under a bill I have introduced the same family of four would receive a tax cut of $300.

President Ford's tax cut puts 43 percent of the benefits into the hands of the richest 17 percent of the population. This is not only unfair, it is bad economics because it will not stimulate the economy. Congress will not accept the President's plan.

I recommend an overall tax cut of about $20 billion. While some people may consider this too much, they should recall that in 1964 the Congress cut taxes by about $12 billion—when the economy was smaller and the recession less severe. In today's economy, that would be equal to a tax cut of about $26 billion.

If economic penicillin is needed to combat the recession, then we should prescribe a dose large enough to help the patient. And we cannot afford to wait until May and September to get extra money into your pocketbook, as the President advocates. Instead, Congress should provide a reduction of withholding rates, retroactive to January 1, 1975, to increase your take-home pay and to keep it coming on a weekly basis.

The tax cut I have proposed would reduce taxes by 61 percent for those earning under $5,000, by 32 percent for families with incomes ranging from $5,000 to $10,000, by 21 percent for those earning from $10,000 to $15,000, and by 16 percent for taxpayers with $15,000 to $20,000 incomes.

In addition to these individual tax cuts, business and farms need an increased investment tax credit—to provide new buildings, new machinery and equipment, and most importantly, new jobs. On this issue the President and the majority of Democrats stand together.

Next, the Congress should turn its attention to tax reform to provide greater fairness in our tax structure. By this, I mean phasing out the oil depletion allowance, strengthening the minimum tax to ensure that the rich pay their share, and eliminating foreign tax preferences that send jobs and capital abroad. And there are many more.

People have a right to expect that the tax laws will be fair.

Prompt action on a tax cut is only the first step on the Congressional agenda. Six and one-half million persons are presently out of work and that number will surely increase. One thing is certain: a tax cut is of little direct help to a person without a job.

In Congress, Democrats and Republicans alike, are committed to putting more people to work, to getting them off unemployment lines and into jobs where they can support their families and pay their share of taxes.

What America needs are jobs, not "Win" buttons. What Americans want is work, not welfare.

On its own initiative, Congress passed an expanded public service employment program providing 300,000 jobs in hospitals, schools, day-care centers, and other public facilities. Since this program was passed in December, half a million more people have become unemployed.

This simply means that more must be done. Democrats propose that Congress immediately authorize an additional 500,000 public service jobs. And an additional 250,000 jobs for each one-half percentage point rise in the unemployment rate.

Yes, I know that this will cost money, but it costs more to have people unemployed. When you're working, you're producing—you're both a consumer and a taxpayer—you're self-sufficient.

Unemployment is not only the loss of a job and income; it is being told you are not needed. This violates the promise of America.

The President has said that he will veto any new federal spending. He proposed that those on social security shall not receive more than a five percent increase in benefits, even though the cost of living has increased by 12 percent. Those on fixed incomes—the elderly, the blind, and the disabled—have suffered the most from inflation. To deny them an increase in benefits equal to the rise in the cost of living is wrong and unacceptable. The Congress will not permit it.

There is no sense punishing people who rely on a small social security check, or raising the price of food stamps for people who are already struggling to feed their families.

Congress is no less concerned than the President over the growth in federal spending and in controlling a large and wasteful bureaucracy. Last year, for example, we cut the President's budget requests by $5 billion.

There is one basic reason for the record-breaking deficits that have accumulated since 1969.

On two occasions, in 1969–70 and 1973–74, former President Nixon attempted to control inflation by slowing down economic growth. During these deliberately-engineered recessions, as production declined, incomes also went down, profits fell, people lost their jobs and, as a result, federal tax receipts dropped sharply. Unemployed workers and businessmen and farmers operating at a loss don't pay taxes.

In these recession years, the federal deficit grew by leaps and bounds. In just this year and the next we can expect a federal deficit of $80 billion. This is frightening.

The way to end these deficits is to get the economy moving—to get people back to work and business to invest. And we can do this with a prompt tax cut, sensible federal spending, and ample credit with lower interest rates.

These are among the major items on the Congressional economic agenda. They will offer each of you a greater measure of security as America begins the long period of economic recovery. But lasting economic health is impossible unless wise actions are taken in several additional areas.

First, let me discuss money and credit. Tight money and high interest rates have not halted inflation. They have added to it. That's obvious to everyone. But they have choked off economic growth, brought homebuilding to a virtual halt, increased bankruptcies among businessmen and farmers, and created havoc in our capital markets.

Yet in his remarks last week, President Ford was totally silent on the money and credit policies that will make economic recovery possible. I propose that the President convene an emergency conference on monetary policy, attended by the Federal Reserve Board and representatives of business, labor, banking, farming, and the investment community.

This conference should be convened for the express purpose of arriving at monetary policies that are fully consistent with the goal of economic recovery. Unless this is done, the desired economic effect of the tax cut and other economic recovery measures will be largely wasted.

I further propose that the President use the Credit Control Act of 1969 to channel credit into sectors of the economy now starved for funds, primarily housing, state and local government, small businesses, and agriculture.

Now let me say a word about housing.

There is no way out of a national recession while housing is in a depression. Today hundreds of thousands of skilled construction workers are out of their jobs and thousands of contractors are without work.

Yet America needs homes and many of our cities need massive reconstruction.

As early as 1949, Congress established a national goal of a decent home and a suitable living environment for every American family. To achieve these goals and rescue the housing industry, strong action is necessary.

First, Mr. President, release the funds that the Congress has provided for housing.

Second, Congress should consider establishing a National Housing Bank with sufficient funds to provide interest subsidies and other financing for low-and middle-income taxpayers.

Third, the President should use the authority he now has under public law to allocate credit for housing.

Economic recovery also depends on a sound national energy policy that can be supported by every American. This will require a policy that is fair and a policy that works.

I recognize that President Ford and his advisers are grappling with a very difficult problem. Each course of action brings with it certain problems and difficulties. But on the basis of the evidence presented so far, the President appears to have chosen the least desirable set of alternatives. The President's plan would add to our inflation and deepen the recession with no assurance of substantially reducing energy consumption.

The President's energy plan will increase the price of imported oil. It removes price controls from domestic oil and gas and it places heavy new taxes on imported and domestic oil. This means higher prices.

There is simply no hard evidence that consumption of energy would be significantly reduced under the President's plan. But there is no doubt whatever as to its economic impact. A new wave of inflation would sweep through the economy.

In the past 18 months, the price of oil shot up from about $4.50 per barrel to the current average of about $9.50. President Ford's plan would increase oil prices by that much again—to over $14 per barrel.

The direct effects of this price increase add up to about $45 billion, or $15 billion more than the President's proposed tax reductions. Others estimate that the cost may be $55 to $60 billion. But whatever the figures, this simply means that you will be paying out a lot more in higher energy costs than you will be getting back in lower taxes.

For example, for a family of four earning $15,000, the proposed $220 tax reduction under the Ford plan will fall far short of the estimated $800 or more you will be paying for gasoline, heating oil, electricity, and natural gas. Not to mention the added costs for transportation, food, and even clothing. I don't believe your family can afford this extra $580 that the President's plan asks you to pay.

Looked at another way, this will mean consumers and businesses will have to pay an additional 19% for gasoline, 28% for home heating fuel, 20% for diesel fuel, and 42% for jet fuel.

While your costs will increase, the energy industries will profit handsomely—perhaps more than the President himself realizes. Coal and natural gas producers stand to gain at least $12 billion per year in extra profits. The proposed windfall tax on oil producers will be phased out over several years, leaving $2–$3 billion in excess profits to the producers annually.

I can't believe the President and his advisors really thought through what his energy plan will do to consumers and the economy.

Before Congress agrees to travel down the road proposed by the President, we are going to examine the energy map for some alternate routes.

Any course of action will require sacrifice and inconvenience—that's not the issue. But the sacrifices must be fair and they must move us toward the goal of increased energy conservation and independence.

Senator Henry Jackson, for example, suggests an alternate route that merits the most careful consideration. He proposed quarterly targets for gradual, but definite, reduction in oil imports. The steps to achieve these reductions are ranked in order of increasing severity, beginning with voluntary and mandatory conservation action, followed by import quotas, petroleum allocations and gasoline rationing.

If the measures enacted in one quarter fail to achieve their objective, the President is empowered to move to stronger programs to cut consumption in the next quarter. If the first steps succeed, the harsher remedies can be avoided.

This plan seems to make good sense, especially since this approach avoids the economic damage of the President's plan. Congress is at work considering this proposal and a full range of other alternatives.

Cutting energy demand is only half the battle. We must also support a balanced program of expanding domestic energy supplies. This could be done through a National Energy Production Board, similar to the War Production Board in World War II, that would accelerate research and development of new domestic energy sources.

Our goal is to develop a workable and fair energy policy that has the support of the American people. Not one that will increase the cost of living and add to unemployment and recession.

It is only by restoring economic growth that we will make progress against inflation, increase labor productivity, reduce overhead costs, and reduce interest and capital costs.

But we must also restore competition with a vigorous anti-trust policy.

Finally, we need a tough and selective program to shortcircuit the inflationary spiral. The current Council on Wages and Price Stability is a toothless tiger that has no ability to restrain outrageous price and wage increases. We need an agency with subpoena power, the resources to hold extensive public hearings, the authority to delay price or wage increases up to 90 days, and, in extreme cases, to roll back prices and impose controls on a selective basis.

Recession fuels inflation and unchecked inflation brings about recession. It is difficult task to deal with these twin afflictions, but I believe we can make genuine progress with the program I have outlined tonight.

I began these remarks with the analogy of our country as a person who had been taken seriously ill—and that a diagnosis of the illness had finally been agreed upon by Congress and the President.

I'm sure we agree on another point: that we are not faced with a terminal illness. America is basically strong, quite capable of full recovery. But part of the treatment will be for all of us to understand the importance of work productivity, elimination of waste, and self-discipline.

These are unusual times—we have both inflation and recession—we have a Democratic Congress and a Republican President—we have a trillion and a half dollar economy amidst growing unemployment and poverty.

These unusual times require new thinking and new answers.

As Lincoln once said:

"The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty. We must rise with the occasion. As our case is new, we must think anew."

Part of our new thinking should be to put our political differences aside in developing a national economic policy.

What America wants and needs is not partisan argument, but political responsibility.

But we must also remember that government alone cannot provide us with the answers. It must be a partnership of government and the people. We can here and now resolve to put America back to work—to conserve and develop our human and physical resources.

Our present difficulties offer us the opportunity to build a better America.

JERRY T. VERKLER

Mr. MOSS. Mr. President, Jerry T. Verkler has resigned from his position as staff director of the Senate Committee on Interior and Insular Affairs to pursue his career here in Washington, D.C. I certainly wish for Jerry and his wife every happiness and success.

During most of the time that I served on the Interior Committee—some 14 years—Jerry was the staff director, and he did his job with efficiency and courtesy. I am sure he will be greatly missed. During his tenure, Jerry demonstrated great skill and administrative objectivity and moved an immense workload through the committee. With this background, together with his wide experience in other matters, I am sure that Jerry will continue to enjoy the confidence and respect of all with whom he comes in contact.

COMMENTS ON PRESIDENT FORD'S ENERGY AND ECONOMIC PROGRAM

Mr. BARTLETT. Mr. President, President's Ford's energy proposals will have a disastrous negative impact on this country's goal of increasing the supply of domestic energy. The program means higher costs to consumers and effectively lower prices to producers. It guarantees consumers less energy supplies instead of more energy supplies at a time of a severe energy shortage when imports of high cost foreign crude oil, because of the unfavorable balance of trade, and for other reasons must be reduced sharply. The administration's program aggravates our energy shortages.

Although the President has correctly recognized the need for drastic steps to encourage energy conservation, his specific windfall profits tax proposal will effectively roll back the average price of crude by 50 to 75 cents per barrel paid to this country's oil producers. If this tax is enacted as the President has recommended, the oil industry's exploration and drilling efforts will be curtailed immediately—the current exploratory and drilling momentum reversed, and our chances to work gradually out of the energy shortage will be postponed.

Because of this windfall tax, the average value of crude to the producers will fall 50 to 75 cents per barrel; thereby reducing the amount of capital available to the oil industry for investment in exploration and development.

But more importantly, the most disastrous aspect of the windfall tax is its impact on the producers of the exempt "new, released and stripper" oil.

The $11 per barrel price of the exempt oil is and has been the prime stimulus for the industry's tremendous surge in drilling activity. The windfall tax will effectively reduce the value of this oil to $6 per barrel and therefore decimate immediate efforts to increase our energy supplies.

It will also retroactively punish those producers who were aggressive and successful enough to develop new production during the last 2 years.

The effective price for "old" oil will be approximately $6.50 per barrel, while the effective price of "new, released, and stripper" oil will be but $6 per barrel. Thus, there is a negative incentive for the drilling; new oil and gas and for continuing and expanding stripper well production.

The sharp drop in effective price for stripper wells will have disastrous results.

The huge drop in effective price will force the abandonment of thousands of small producers and preclude many

THE WHITE HOUSE

WASHINGTON

May 27, 1975

MEMORANDUM FOR THE PRESIDENT
DON RUMSFELD
BOB HARTMANN
JACK MARSH
MAX FRIEDERSDORF

FROM: RON NESSEN RHN

My notes from a meeting of February 28, 1975, with Democratic Congressional leaders on the President's energy program, show the following quotations which may be of some help in the days ahead:

Senator Pastore:

"If we can't come up with something in 60 days, we can't come up with something (at all)."

"I don't see how we can ask the President to do more than postpone the second dollar for 60 days. If we don't come up with a program by then, you can put it on."

Speaker Albert:

"It's not fair to ask you to make a decision until you've studied our plan. Just hold off the second dollar until you have studied it."

Congressman McFall:

"If the goal of the import tariff was to get the mule's attention, you've got the mule's attention."