PRESENTATION OF AWARDS

BY

JAMES R. SCHLESINGER

SECRETARY OF ENERGY

JAMES FORRESTAL BUILDING

AUGUST 22, 1979

WASHINGTON, D.C.

JAMES R. SCHLESINGER (The Secretary)

I thought we would be limited at the outset to husbands and wives, therefore there would mutual enthusiasm in the applause. We've got more than I had anticipated. I regret that we cannot have, in view of the crowding that's gone on here, as much in the way of individual ceremony as I would like.

However, we have a number of honorees today and they have all done yeoman service for the Department of Energy in this period that I have been here -- and some of the people go back to days before the Department of Energy serving with the Energy Policy Staff over at the White House that produced NEP Number I -- a document whose underlying strategy still is unchallenged save by NEP II. As I say, all of you have done yeoman service for the Country and for the Department.

You may not always be in a position to bask in the gratitude of a grateful Nation -- where is Bart House, anyway -- but you will be basking in the gratitude of a grateful Government and a grateful Department. I personally appreciate all that you have done -- all of you -- even those amongst you whose moral imagination has been narrowed by excessive contact with a legal education.

And, on that note we might as well start with, perhaps, a principal example. Our esteemable General Counsel, Lynn Coleman. Why don't you come up here.

I observed at Lynn's swearing-in ceremony, which occurred only nine months after we sent Lynn's name forward to the Senate Energy and Natural Resources Committee to be scrutinized at some length by Senator Metzenbaum and others that I had not even heard of -- what is that firm down there -- Vincent and Elkins. Then I discovered that Vincent and Elkins was the source of the snake that had been placed initially in the Garden of Eden and had tempted all mankind ever since.

That, however, is not the reason for the Award today. It is Lynn's extraordinary service to the Department in the profession narrowly defined in terms of legal advice and broad political advice. He has lived down the reputation of being a partner of John Connolly -- at least for the moment. He has now become the very epitome of Texas populism -- fighting the oil industry, as well he might.

Frank, will you read the citation?

FRANK R. PAGNOTTA

The Secretary of Energy's Distinguished Service Medal is awarded to Lynn R. Coleman for his superior performance as the first General Counsel of the Department of Energy.

Mr. Coleman, through his broad legal expertise, exceptional understanding of complex energy issues and experience in the legislative process was a major contributor to the formulation and execution of the Department's legislative and regulatory programs during a critical period in the development and implementation of the Country's energy policies.

As a principal advisor to the Secretary in addressing issues of the utmost importance to our Nation's energy future, his dedication, leadership and continual exercise of sound judgment have been invaluable.

Mr. Coleman's distinguished service and outstanding contributions reflect great credit upon himself and the Federal Service and warrant the highest public recognition by The Secretary of Energy.

THE SECRETARY

Each honoree will have a few minutes for rebuttal if he should choose to avail himself of the opportunity to defend himself. Unless the remarks are respectful the microphone will, however, be cut off. Lynn.

LYNN R. COLEMAN

I will be very brief as I have tried to be throughout our travails. As I pointed out, I recall on the occasion of my swearing-in the snake got off, as you recall, with only minor inconvenience and those skills I have not found in apposite in my work here. It's been a genuine pleasure. I cannot think of anybody that I have ever enjoyed serving more as a lawyer or, perhaps, who needed more service as a lawyer, than our distinguished Secretary.

THE SECRETARY

Thank you, Lynn, for all the advice tended in the past. I had not realized it before you spoke but that snake in the Garden of Eden was probably the first product of our first law school. I mentioned that you were a partner of John Connolly's, Sylvia is a partner of Bob Strauss. I think that shows a delicate political balancing that shows a certain ingenuity there. Thank you, Lynn. Thank you all for everything.

Dennis, where are you? You have lots of family here. We are particularly pleased to honor Denny Ellerman who has been a kind of a triple threat. I mean that in the best sense. He has moved from IA, where he has done considerable work with regard to the long-term economic implications of the perspective shortage of oil and having surveyed them at sufficient length put together a report that shows that the national economy is irretrievably on the road to ruin with accelerating inflation and rising unemployment. He was so aghast at those results that he shifted over to become, as he is presently, Deputy Assistant Secretary for Policy and Planning. In addition, while he was engaged in these activities he was our main impressario for our Chinese visit, interacting with the likes of Dung Chou Ping with a humility that gave credit to the United States, and brought off the results. I note that shortly after Denny went to China, the United States and the People's Republic of China -- I used to call it Red China -- the People's Republic of China established diplomatic relations after a period that had been fractious for some 25 years and that too post hoc ergo practer hoc, as we lawyers say.

Will you proceed, Pag.

FRANK R. PAGNOTTA

The Department of Energy's Outstanding Service Medal is awarded to A. Denny Ellerman for his substantial contributions to the formulation of both national and international energy policies and programs.

Mr. Ellerman has distinguished himself as Deputy Assistant Secretary in the areas of International Energy Research and Policy Analysis. His background and skills, coupled with demonstrated competence in addressing sensitive international issues, have made important contributions to the Department's role in international energy development.

Mr. Ellerman's expertise and sound judgment have served the Department and the public interest well and deserve public recognition by the Department of Energy.

A. DENNY ELLERMAN

I think that after what went before I got off lucky on that, so I will -- it has been a great pleasure working with you, sir. I will always remember it. Thank you.

THE SECRETARY

Don't go away without the other trinket. You can wear that on your tuxedo, when you have an opportunity to wear a tuxedo; that is your citation.

A. DENNY ELLERMAN

Thank you, sir.

THE SECRETARY

This is another lawyer says Pag. I learned from John Dingell's staff when I came over here that before the snake was -- come up here Eric -- before the snake -- there was Eric Fygi. It is he who made the transfer from the Federal Energy Administration keeping all of our legal principles and lack of principles all intact in that transfer. He has given me continued and steady advice even during that period of time that our esteemable General Counsel was paying homage to Senator Metzenbaum and other such luminaries and he held the fort very well -- telling us all the things we couldn't do and why we couldn't do them as any good lawyer should.+

Pag, would you read the citation.

FRANK R. PAGNOTTA

The Department of Energy's Outstanding Service Medal is awarded to Eric J. Fygi for his distinguished performance during the last two years as Acting General Counsel and Deputy General Counsel for the Department of Energy.

Mr. Fygi's deep understanding and exceptional appreciation of the intricate history of energy legislation were invaluable, particularly during critical periods while the Department of Energy was being organized and during a series of national energy emergencies. He has responded to a full range of legal, regulatory and managerial concerns with skill and dedication while consistently displaying strong leadership, sound judgment and keen insight.

Mr. Fygi's accomplishments reflect great credit upon himself and the Federal Service and warrant public recognition by the Department of Energy.

ERIC J. FYGI

Well, it is hard to follow up after Lynn's observations but I do recall with some amusement the first time that I had occasion to meet and work with Jim, one-on-one. And, the occasion was the emergency natural gas legislation, which had to be the first unexpected initiative that the new Administration was responsible for -- [The Secretary -- and it might be the last successful one] -- I didn't want to say that, that would have been too self-serving. But having had some experience in that sort of thing for Administrations that will be nameless, I wound up after some marathon sessions with some of my counterparts who were then on the Hill, like Les who is here today, and after spending the greater part of two days pulling together this innocuous package without benefit of sleep, it fell upon me to go to the West Wing of the White House and tell the Secretary-designate, then a member of the White House staff, all he needed to know about the bill to respond to the press conference that was to be called shortly to dwell upon this initiative. And, much to my surprise in going through the customary black book that people prepare for people on such circumstances, he actually started reading the legislation itself, which was an unprecedented thing in my experience. I had never had a client in such circumstances actually attempt to read the bill himself. What made it worse is that on one occasion he paused and said "wait a minute, in here where it 'says such pipeline' should that not read 'any pipeline'?" and I confessed to be totally incapable of responding to the merits at that stage of any question but assured him somehow that if there were a problem it would rectified before the bill actually was transmitted later that day. And, sure enough, although I have never admitted it to him after that, as it turns out he was exactly right and this was called to my attention by one of our fresher people when they returned to EOB who had three hours of sleep and had had a chance to review the bill further. So I think that kind of experience is what I always recall in the midst of all the commentary, both loveable and otherwise, that we have had on the legal profession and which has characterized my own relationship with The Secretary and the splendid opportunities that he has presented to me and for which I am very thankful.

Thank you very much.

THE SECRETARY

Leslie J. Goldman. You heard about the last successful initiative of the Administration, the emergency natural gas bill. The reason it was successful was at that time we had this suborned agent working for us on Capitol Hill. He managed to put it through very quickly and as his reward he had the opportunity to join the Energy Policy Staff, the Federal Energy Administration, the Department of Energy; he is fabulously as busy as the legendary one-armed paperhanger; gets an amazing amount of things done, only part of which I know about. In honor of the occasion he has had his hair cut. You are going in the right direction, Les. He happily emerged from the temptations represented by the law -- what is it, abandoned the law or temporarily put aside the law -- and was tempted, as was Eve in the Garden of Eden, to policy work. Pretty soon you will return to the purity, I think, of the law, Les. I don't know enough to say about Les. I get emotional and tongue-tied and all of those things. He just has done an extraordinary job.

Pag.

FRANK R. PAGNOTTA

The Secretary of Energy's Distinguished Service Medal is awarded to Leslie J. Goldman for his outstanding performance during the past two years while serving as a member of the Energy Policy and Planning Staff, Executive Office of the President, Assistant Administrator for Energy Resource Development in the Federal Energy Administration and the first Principal Deputy Assistant Secretary for Policy and Evaluation in the Department of Energy.

Mr. Goldman's diligence, intelligence and dedication were pivotal in the development and passage of the National Energy Act and the formulation of our Nation's energy policies. He has been involved on a daily and intimate basis with the most sensitive and critical energy issues and has successfully advanced and articulated the Department's positions within the Administration, the Congress, industry and the public at large. His knowledge, perception and counsel have been invaluable.

It gives me pleasure to recognize Mr. Goldman's exceptional contributions to this Department and our Nation's energy future by awarding him the Secretary of Energy's Distinguished Service Medal.

LESLIE J. GOLDMAN

There is a trend developing here in case you hadn't noticed it about The Secretary's feelings about lawyers and the only thing worse than a lawyer, from The Secretary's point of view, is a lawyer from the University of Michigan. So that anybody who knows how he feels about form graduates of that school knows that I am particularly honored today to get this Award. I must say, though, just quickly that I think the Award is deserved by another alumni of the University of Michigan a lot more than me. And that is my wife, whose patriotism and patience through these last couple of years has been extraordinary. It also is deserved by a great group of people in P&E, in my office and Al's office. I just can't say enough about what this experience has meant to me in terms of working with the people in this Department. And, finally, this very extraordinary public servant over here. I will always treasure the relationship and the learning and the time that I have had to spend with The Secretary just as I will cherish this Medal.

Thank you.

THE SECRETARY

When we were talking about the natural gas bill in the 17th month of the meeting of the conference, I asked Les whether we were going to get the thing done and he said, "We are going to get it done because I want to deny to anybody in the future the fun of working on natural gas legislation."

John Harris. I can see your shirt from here, John. The brown tie and the brown shirt go very well with the blue suit. As you can see from his sartorial elegance, John Harris effects to be a country boy; that means stay out of my way, hold on to your wallet and various things of that sort.

He comes from Columbia, Tennessee. We recruited him into the Federal Service years ago from the Associated Press to which he is planning not to return. I have indicated that he has all the shrewdness of a country boy and he took advantage of one of the great financial bonanza's offered in all time, which is the Early Out Policy of the Department of Energy which makes it financially attractive not to work for the Federal Government. That was not, however, intended to be a lure to John particularly.

John and I have grown up in the days of nuclear power. Nuclear power, as you know, for many people a four-letter word. It was never for John or for me in our days at the Atomic Energy Commission. He went with one wing or the other of the Atomic Energy Commission -- the wrong one -- and we lured him back when the Department of Energy came into existence. He is able to discourse on the future of political destinies of the United States of America -- rather grimly but dispassionately. He is able to describe the 37 ways of distilling bourbon whisky, including the best way that they do it in Tennessee near his home town; and, he has a mastery of dealing with the press which requires a degree of patience only exceeded by the degree of patience that has been required in dealing with me over the last eight years.

Would you read that citation, Pag.

FRANK R. PAGNOTTA

The Secretary of Energy's Outstanding Service Medal is awarded to John A. Harris, Jr. for superior performance during the past two years as the first Deputy Director of the Office of Public Affairs for the Department.

Mr. Harris' administrative skills coupled with sound judgment were instrumental in formulating energy information policy upon the establishment of the Department in October 1977. Using tact and discernment he implemented the consolidation of several different public affairs operations into one cohesive, centralized, functioning organization that has been responsive to a large volume of media and public requests for energy information.

In his corollary role as a public affairs advisor to The Secretary and as a Department spokesman on complex energy matters he consistently displayed discretion and a depth of knowledge that enhanced the accurate portrayal to the public of the Administration's energy policies.

Mr. Harris' accomplishments and dedication throughout his long career as a public servant warrant recognition by the Department of Energy.

JOHN A. HARRIS, JR.

Pag didn't fix mine right.

FRANK R. PAGNOTTA

John, I will correct you, I did.

JOHN A. HARRIS, JR.

It has been a privilege, Mr. Secretary. Thank you very much but you still owe me $6.14 from our Reno trip.

THE SECRETARY

(Reaching into his pocket and taking from his wallet $7) -- Keep the change, John.

THE SECRETARY

Barton House. I do not know precisely what to say about Bart except that he has grappled with every energy emergency that this Country has faced since Valley Forge, indeed, including Valley Forge. He has done very well at it. Last year during the soft coal strike he ran the office during the day -- saved the mid-West, he is the savior of the mid-West. Out there in the mid-West they may not know it and there are those whose feelings about the mid-West are such that it may be better not to let that be broadly known -- he is the savior of the mid-West. When the soft coal strike started, 300,000 tons of coal a week were going into the affected areas of the mid-West. We faced the ultimate possibility of social catastrophe and of, less than that, major umemployment in the mid-West and all through that period he built up the flow of coal so that by the end of the strike (at one point 6 million tons a week -- is that it, Bart? --) were flowing in there. And, that was extraordinary. He did this during the day and a night he would fly out there and move the trains himself. That was only a prelude to the happy events that have occurred. There was only one man more disturbed by the overthrow of the Shah than the Shah himself, I think that was Bart House who has been moving distillate gasoline under the damndest shell game I have ever seen in my life. Every time I turn over those shells there is nothing there and he assures me that everybody is going to have plenty. He has interacted with the Governors of the States, all of whom come in here with this sudden bright idea that they can alleviate the Nation's energy problems if you only provide a larger share of gasoline for my State at the expense of the other 49; that broad gauged and patriotic attitude that ultimately assures electoral victory at the State level. And, Bart has managed to cope with all of that to the Nation's benefit, to the Department's benefit. We thank you Bart.

Pag.

FRANK R. PAGNOTTA

The Secretary of Energy's Distinguished Service Medal is awarded to Barton R. House for his outstanding performance as the Assistant Administrator for Fuels Regulation and then Deputy Administrator for Operations and Emergency Management of the Economic Regulatory Administration.

Mr. House's professionalism, skill and dedication in effectively carring out complex and important tasks have made him an invaluable asset.

Through his keen appreciation and sensitivity to prevailing energy conditions he has contributed significantly to the policies of this Department and his exemplary managerial practices have earned him the respect and admiration of his colleagues.

In directing the successful efforts of the Coal Supply Task Force during the coal strike of 1977-78 and, more recently, the Diesel Fuel Task Force, established to ease the effects of current diesel shortages, Mr. House played a vital role from which all Americans benefitted.

His sense of duty, his expertise and the outstanding execution of his responsibilities reflect great credit upon himself and the Federal Service and warrant public recognition by The Secretary of Energy.

BARTON HOUSE

Very brief, this Medal belongs to my wife and my family who have paid a price and the people I work with -- because they are the ones that move the coal, move it all over the Country, not me. I sit back here and talk to the Boss. I would like to say one thing. We were talking about baseball scores and I know the consumers of this Nation do not understand it but for the coal strike the score on the board was 0 for the advocates of the coal strike and the demagogues; 2 for the consumers of this Country. The Iranian situation, where we are in ninth inning, the ballgame is not over yet but the box score up there on the wall says 0 for the demagogues and 2 for the consumers of the Nation. Down the road the score though is not so straight. I believe the consumers do not know it but it will be minus 2 for the consumers and 0 for us as some people believe. Thank you.

THE SECRETARY

I do not know whether we will be able to call this latest oil problem a gain because of rain in the ninth inning. I am convinced though, Bart, that if you had ever gone to law school that the midwest would have just gone down the tubes.

BARTON HOUSE

There are still a few people looking for a train we left some place.

THE SECRETARY

Jim Janis. Jim, you know there is public confession that is going on right now and we might as well go into it; we brought Jim over from the Environmental Protection Agency -- now he has a checkered career and a lot to live down and he has lived it down very well I think. In all of the work he has done on the issues of policy he has done superbly well. In terms of arranging a balancing given his new position and his new perspective between energy and the environment to the detriment of his former colleagues -- happily for us and for the Nation. In addition, Jim Janis played a formulative role in the establishment of the Energy Coordinating Committee. A Committee that we have worked on extensively attempting to utilize that mechanism to get something done in a number of senses, even within the Committee itself. It is now, however, recognized widely that the precepts of that Committee are something that should be more broadly utilized and that is the basis for the Energy Mobilization Board. Everything that Jim has done has been of extraordinarily high quality and

I must say that he is one of the better writers in the Department of Energy though that is not listed in the Citation.

Pag.

FRANK R. PAGNOTTA

The Department of Energy's Outstanding Service Medal is awarded to James R. Janis for his accomplishments while serving as the Deputy Assistant Secretary for Planning and Evaluation and Executive Director of the Energy Coordinating Committee.

In his dual capacities, Mr. Janis has been responsible for a wide range of energy projects and programs critical to the national interest. He has consistently discharged these duties in a professional and exemplary manner significantly enhancing and highlighting the role of Federal participation in these arenas.

His dedication and exemplary performance have earned him the respect and admiration of both his superiors and peers and warrant public recognition of the Department of Energy.

JAMES R. JANIS

Thanks, Jim. I recognize that this Award is aimed not only at me but at my wife and particularly the staff in Policy and Evaluation. The people there in my opinion that I have worked with over the last two years -- most of them I did not know before I got there -- are the most dedicated, competent and capable people that I have ever worked with in Government. I have enjoyed working with them and with Les and Al and I will always particularly remember working with Jim Schlesinger. Thanks.

THE SECRETARY

It is a particular pleasure to make this Award to the only outsider in our midst today.

Julius Katz has played an invaluable role in the formulation of internationl energy policy and in establishing a firm framework for relations between the Departments of State and Energy. Given the tangled relationship of the State Department with everybody else in the world was a major achievement, I think, on Julius' part. He is responsible for the hard line that the United States Government has taken toward Lopez Porteo, Mexico and an appropriate price for natural gas in defense of the American consumer and all those people who lie along the northern frontier of the United States. But, in his characteristic generosity he has been willing to allow the credit for that hard line to go elsewhere. We have had a very close working relationship with at least Julius' branch of the Department of State -- the Department of State is fractured as you know. We have worked with Steve Bosworth, when he was working for Julius, and it has been one of the happiest interagency relationships that I have ever encountered. I thank you for all of the cooperation, the excellent work and the charity that you have displayed toward this newest member of the Departmental structure of the Executive Branch.

Would you read the Citation, Pag -- this Citation being a special case.

<u>FRANK R. PAGNOTTA</u>

The Secretary of Energy's Distinguished Service Medal is awarded to Julius L. Katz in recognition of his outstanding contributions to the formulation and execution of the international energy policy of the United States of America.

While serving as Assistant Secretary of State for Economic Affairs, Mr. Katz was a principal point of contact between the Departments of State and Energy. Since the creation of the Department of Energy, Mr. Katz has been instrumental in creating a smooth and effective working relationship between the two Departments.

In several foreign trips with the Secretary of Energy Mr. Katz's participation was marked by professionalism demonstrating a broad understanding of energy, economic and political issues.

His counsel, leadership and diplomatic skills reflect great credit upon himself, the Department of State and the Government of the United States and warrant the highest recognition by the Secretary of Energy.

JULIUS R. KATZ

Mr. Secretary, I am deeply honored to receive this Medal. I am honored to be included among the distinguished public servants in the Department of Energy and knowing your high regard for the Department of State which I think is probably second only to the legal profession -- that is a source of deep satisfaction to me. But, finally it has been a tremendous experience for me to work with you not only in your recent capacity but going way back to the Bureau of the Budget.

Thank you very much.

THE SECRETARY

I should make clear -- if I have not done so to this point -- that the legal profession is not without redeeming social virtue.

Doug Robinson. This is another of our Department's sundry one-armed paper hangers. He has done extraordinary work in managing the rulemaking process within the Economic Regulatory Administration turning out the endless flow of rules that has saved the Nation and confused the oil industry. I think that there may be some correlation between those two things. He was also the man that we appointed the Coordinator of the SOHIO Pipeline -- of late lamented memory. That was quite an effort as it required working closely with the Governor of California, whose name I forget, and with various subordinates all of whom assured him that the State of California was solidly behind this National facility. Well, we know the outcome of that and it was a most frustrating experience -- not only frustrating but a rather consuming one. But, I think that you have achieved in that whatever success could be achieved by underscoring the necessity of some other process by which we could see these national energy facilities would be built and that is one of the purposes of the President's current legislation.

Pag, would you read the citation?

FRANK R. PAGNOTTA

The Department of Energy's Outstanding Service Medal is awarded to Douglas G. Robinson for his exceptional performance while serving in the capacities of Deputy Administrator and Assistant Administrator for Regulations and Emergency Planning in the Economic Regulatory Administration of the Department of Energy.

Over the course of the last two years, during his tenure at both the Economic Regulatory Administration and its predecessor the Federal Energy Administration where he served as Deputy General Counsel and as Special Assistant to the Administrator, Mr. Robinson has consistently demonstrated the unique and sustained ability to address a wide range of complex technical, regulatory and economic issues.

Mr. Robinson's integrity, superior analytical capability and dedication warrant public recognition by the Department of Energy.

DOUGLAS G. ROBINSON

I have always admired those pictures of Chairman Brezhnev who wore medals on his chest and now I get to wear one.

THE SECRETARY

I trust that is the only thing about him you admire.

DOUGLAS G. ROBINSON

The real honor of the tenure that I have in the Department of Energy is in having worked with Secretary Schlesinger and also Deputy Secretary John O'leary who in my opinion are two of the most outstanding public service servants that this Country has ever had. And, I think that we ought to do like Brazil did with Pele and declare them national resources.

Thank you Mr. Secretary.

THE SECRETARY

Here is another great professor and St. Ives observed that he is a lawyer but also an honest man and the people were amazed that I think applies primarily to law professors. Several years ago the Federal Government enticed Richard away from the academic groves to come work with us starting with the Federal Power Commission. He had been of extra-ordinary effectiveness, I think, in dealing with the natural gas and oil pricing issues. He has been one of the people who has been lucky enough to join Julius Katz in negotiating with the Mexicans -- a negotiation that continues and may go on year after year until the end of time. But I doubt that you will be with it until the end there is a relief in sight in that regard. And, this has been a period of major development with regard not only to natural gas and oil. I think that the national policies have been set in this area and considerable credit for the setting of those national policies must be given to the quiet and effective work of Richard Smith. We are thankful that you have decided that this was the appropriate period for a sabattical.

Would you read the Citation, Pag.

FRANK R. PAGNOTTA

The Department of Energy's Outstanding Service Medal is awarded to Richard M. Smith in appreciation for his contributions to the development and enactment of a national energy policy.

While serving as a member of the Energy Policy and Planning Staff, Executive Office of the President and later as the first Director of the Office of Policy Coordination, Office of Policy and Evaluation in the Department of Energy, Mr. Smith has consistently demonstrated the unique combination of personal integrity, technical competence and the ability to effectively communicate the Department's concerns to both the public and private sectors.

He has served the Department in a wide range of capacities demonstrating unique expertise while discharging his responsibilities in the highest professional manner.

Mr. Smith's dedication and exceptional performance warrant the public recognition by the Department of Energy.

RICHARD M. SMITH

Notwithstanding your unwarranted disdain of the legal profession Mr. Secretary, I find that working in the Department of Energy during the last two years or so has been an exceptional experience. It has been exciting and rewarding and I shall ever be grateful for the opportunity that you afforded me in this regard. In closing, I would add I think that the Nation will miss the extraordinary and unmatched, as far as I know, combination of intellect, impressions and general good will that you bring to the energy issues.

THE SECRETARY

The last name on this list is John Treat. You will notice that there may be one organization, although I am fool enough to observe these temperature requirements, that the Department of Energy has given to all of us. You have got to break that thermostat here, too, Pag. John is a Deputy Secretary for International Affairs -- that is not what you may think it means, Mrs. Treat. That means he works largely with dull statistics constructing, reviewing, finding and manipulating all those things that one does. The national energy policy -- let it be confessed that the National Energy Plan was incomplete -- the reason for that was that before we could have an international energy policy we had to have one that effectively dealt with our national energy problems. For that reason in part we have never completed the second part of the National Energy Plan.

The United States imposes a vast burden on the outside world -- for most of the Nations in the world being in the energy market with the United States is like going to bed with an elephant -- I finally got your interest did I Les? -- if it rolls over you will be crushed and there is very little that you can do about it. And, the international energy market is becoming more and more a brooding problem for the American people -- such that I think that in some period of time we will begin to recognize the significance for this Country of the international energy market.

Pag, please read the Citation.

FRANK R. PAGNOTTA

The Department of Energy's Outstanding Service Medal is awarded to John E. Treat in recognition of his significant contribution to the formulation and execution of the international energy policy of the United States and for the imaginative and detailed analytical and technical support of The Secretary and other principal officers of the Department in their efforts to articulate this policy to the Congress and the people of the United States.

While serving as the Director of International Affairs' Office of Producing Nations, Mr. Treat has played a key role in the preparations for a variety of critically important bilateral and multilateral international meetings and negotiations; he has participated actively in the successful presentation of U.S. views and negotiating positions in achieving U.S. objectives.

His professional competence, his in-depth knowledge of international energy markets and his broad understanding of the complex interrelationship of energy, economic and political considerations and issues have contributed directly to the successful accomplishment of the mission of the Department.

His sustained performance at a clearly superior level reflect great credit on him, the Federal Service and on the United States Government and warrant public recognition by the Department.

JOHN E. TREAT

In recognition of the temperature, I will be extremely brief. I have had a hard time explaining to my wife and my children what I do. With regard to my eight year-old, I was in his school one day and someone said, "What does your daddy do?" He said, "he is a ecommunist." I have a new idea that you have just given me, Mr. Secretary, I think henceforth I will describe myself as an elephant keeper. But, I would like to thank you -- it has really been grand working with you -- it has been exciting and I am not sure I describe it as entirely pleasurable but certainly rewarding. And, my wife said she would kill me if I said something, but I have to say that her patience -- I mean this woman really believes that I have been going to Paris for meetings - it is incredible - we should all be so lucky.

THE SECRETARY

Before you take on the job of elephant keeper you ought to know the full range of the responsibilities of that job.

Well, John's was the last name on the list -- we must have skipped somebody's. There it is Frank Pagnotta, Frank Pagnotta. Pag.

FRANK R. PAGNOTTA

Yes sir.

THE SECRETARY

If you have had much opportunity to talk to Pag you have probably heard many stories from his career -- some small percentage of which are probably true. The rest of them are only to test the degree of gullibility of the listener. (He has been very successful most of the time.)

We could not have succeeded in putting together the National Energy Plan without Pag. The way he had that White House Staff under his control was the envy of anyone who aspired to become Chief of Staff of the White House Staff; in that effect I think that since we left the White House complex the need for a new Chief of Staff has become evident -- it took a while to get there but we finally did -- light did finally come through and, consequently, we have Hamilton Jordan as Pag's ultimate replacement.

I do not want to go through Pag's checkered career. He started off in the Army working with Al Haigue, worked with

Nelson Rockefeller, ran the Office of Science Policy for a number of years under a number of now forgotten Directors of that Office. Pag has not been forgotten; and, finally the requirements of the Country became such that he decided to take a hand in straightening out our energy policies and establishing the Department. We are all most grateful to Pag for all of he has done and I shall read his Citation personally.

THE SECRETARY

The Secretary of Energy's Distinguished Service Medal is awarded to Frank R. Pagnotta for his superior performance as Chief Coordinator of the Energy Policy and Planning Staff, Executive Office of the President and as the first Director, Office of The Secretary.

His abilities to function effectively as the conduit for overseeing the execution of diverse assignments to produce cohesive policies and programs during the critical formulation and development of the Department of Energy and a comprehensive national energy plan were invaluable.

On innumerable occasions his keen insight, guidance and advice have been essential to the operations of The

Secretary's Office enhanced the continuity of on-going programs and established new directions for others.

Respected by his colleagues for his leadership, professionalism and diligence, he has overcome numerous insurmountable hurdles that stood in the way of achieving his goals.

Mr. Pagnotta's long and distinguished career of exceptional service, dedication and loyalty coupled with his noteworthy achievements are exemplary and it is with distinct pleasure that I present to him the highest public recognition from the Secretary of Energy.

THE SECRETARY

You will now hear from a conduit.

FRANK R. PAGNOTTA

Actually I am speechless. I do not have much to say except to thank those people out there that made this possible. Without my wife's support I could not have done it. I appreciate it very much -- but it has been a distinct honor and I hope it will continue to be a distinct honor to serve with a man like James R. Schlesinger -- who is one of the most dedicated individuals -- not only a public servant but an individual whom I admire and respect and who the Country owes a great deal.

Thank you Mr. Secretary.

<u>THE SECRETARY</u>

Don't forget this Pag. That may not be a fitting but it is a satisfactory note to end this gathering on.

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STATEMENT

OF

JAMES R. SCHLESINGER

SECRETARY OF ENERGY

IN

JAMES FORRESTAL BUILDING AUDITORIUM

APRIL 26, 1979

THE SECRETARY

Well where do I start. I think the appropriate place is to talk very briefly about the national energy problem and how that national energy problem impacts the __________ sector.

We have a national energy problem, both short-term and long-term and these two things tend to come together. Over the period of the last 25 years, the United States requirements for oil have gradually increased, steadily, persistently and they are still increasing to some slight extent. Around 1970, as predicted, the United States peaked out in terms of the capacity to produce petroleum in the lower-48 States. We have gone up a little bit since that time because of the onslow of Alaskan oil, but in the lower-48 States, what we are trying to do by providing decontrol of oil prices is to provide that incentive to slow down the rate of decline in some of our older oil fields. We are using almost 20 million barrels a day and we are producing in effect about 10.5 to 11 million barrels a day. Consequently, we are importing 8.5 million barrels a day and much of that importation has come from the Persian Gulf in recent years. The whole free world, indeed one can well state that our type of civilization that we represent is now dependent upon the fuels that come out of the Persian Gulf.

I say that less because of the United States that somehow or other could fend for itself even in the event of a Persian Gulf cutoff, but because of Western Europe and Japan. Western Europe and Japan, the industrial democracies like the United States, are bound together in the face of a continuing threat represented primarily by the Soviet Union. And Western Europe and Japan cannot, in terms of energy supplies, survive without the Persian Gulf. So we have a stake. If you think of the map of this region down through the Persian Gulf through the Straits of Hormoz -- and the channel of the Straits of Hormoz is about three miles wide -- pass each day 20 million barrels of oil. That is 40 percent of the free world's consumption; it is about 60 percent of all the oil flowing into international commerce and it goes down through this narrow channel. It implies, I think, the severe risks that we face just in terms of the potential cutoff.

We have noticed, of course, in recent months the effects of the developments in Iran. Iran, but itself, represented some 10 percent of the free world's production, something on the order of 17 to 18 percent of all of the oil flowing into international commerce, and Iran went down to zero imports the end of December. It was and is an unstable country and it underscores our dependency, it underscores our vulnerability that we in the Western World are dependent for our sources of supply upon political upheavals in countries that we scarcely know of. It is 20 years since the United States was energy independent in a true sense. And, we are in a position today in which we are dependent, and more so as leader of the free world than as a country by itself, upon this fragile, logistical transportation and production system in the Middle East.

In the short-run, we are threatened by the possibility of cutoff -- a political upheaval in Iran. A political upheaval in Iran places far greater importance on Saudi Aradia than ever before. Saudi Arabia now provides by itself something on the order of 25 to 30 percent of the oil that is flowing into international commerce. The condition, the stability of these countries in the Middle East is of vital importance to all of us. The possibility of a cutoff, the possibility of military action, the Soviet Union is close to the Persian Gulf, we are distant. All of these are quite serious. That is basically the short-term problem, the possibility of supply interruption.

But we have a longer term problem and the longer term problem is that the capacity worldwide gradually to increase the production of petroleum itself is beginning to peak out. Each time we have done a study in the course of the last two years, our estimates of OPEC production -- of OPEC capacity -- in 1985 have fallen. You may recall a CIA study in the spring of 1977 which projected OPEC capacity for 1985 at 44 to 45 million barrels a day. Today, we would project it at about 35 to 36 million barrels. Underscoring that if our demand for oil continues to grow that there will not be the capacity to supply that oil at anything like the prices that we are used to. The effect of a continued growth of that demand will be to shoot up prices more rapidly or, in the alternative, a worldwide recession that would hold down the demand for oil since we cannot replace energy.

Now we have a number of measures at work to reduce our own dependency on oil. Basically they are very simple. More efficient use of petroleum and switching where possible to other fuels, notably in the short-run to coal, to uranium -- a prospect that has, recognizably, been damaged by the events at Three Mile Island last month. Over the longer haul that continued increase in supply of petroleum that we have known in the past is not going to occur. And, consequently, we must begin to adapt our capital structure in the United States to different fuels and used more efficiently. That is the heart of the energy problem -- just as simple as that -- adaptation. Above all, we are going to be short relatively speaking of liquid fuels so we must use coal and must use natural gas in our industrial and utility boilers so that a growing proportion of the liquid fuels that are available can be used to move our automobiles, aircraft and drive farm machinery. The substitution of coal for oil in a boiler is at relative little penalty. There is no easy way to substitute coal for oil in a tank when driving an automobile or moving an aircraft or, as you well know, substitution for driving farm machinery.

Our agriculture, to finish up, is a reflection of our larger national problem -- indeed the larger world problem -- with regard to supplies of petroleum. Our agriculture has become, as you know far better than do I, highly energy intensive. That is one of the ways in which the United States uses relatively more fuel, more energy than do other countries in the world because of our agricultural sector. And, just as I indicated a few moments ago, that we must substitute coal in utility and industrial boilers in order to have more liquid fuels for the transportation sector so also we must go through exactly that same move in order to preserve the liquid fuels in the future to permit all of you to continue to produce farm products to the extent that can. In addition, all of us recognize how large a role the export of farm products plays in providing us with the foreign exchange that we require in ever increasing amounts simply to finance the importation of oil. Even if we are able to stabalize our demand for oil from outside of this country, we must recognize that the price of oil is going to continue to go up and the importation of energy is going to be an increasing burden on our balance of payments.

So the energy problem intersects with the agricultural community in two ways. First, it increases the necessity of all of us to devise ways to provide that supply of liquid fuels to keep the farm economy going. And, secondly, it is necessary to keep that farm economy going simply to provide for the exports of agricultural products that play so large a role in maintaining some degree -- some degree of balance in our balance of trade. We recognize that the balance of trade at this moment is sadly in deficit. It would be even more in deficit were we not exporting agricultural products, a reflection of a highly energy intensive agriculture in the United States.

I think that is sufficient for my opening comments. Why don't I open the floor here to -- are you running away, Elliot? -- open the floor here to any comments from nationalists, anarchists, those who would destroy the Government tomorrow, the day after . . . . Sir.

QUESTION

Sir, I am not trying to destroy the Government but I am concerned. I happen to be -- talking about natural gas -- I happen to be personally involved with several natural gas wells in the State of Texas. Just recently the President announced that your Department is negotiating for natural gas from Mexico. Is that right?

THE SECRETARY

The DOE in association with the Department of State has been negotiating with the Mexicans about the price of natural gas and has been doing so for a couple of years.

QUESTION

Okay, the reason I am asking this is that our wells -- our natural gas wells -- are only on about less than 25 percent of the time. This has been true for the last three to four years. When those wells are not on, first of all we are losing income so we cannot drill more new wells. And also, all these natural gas wells produce a certain amount of oil when they are producing natural gas. Why are we trying to buy natural gas from Mexico when we have a lot of natural gas ourselves and we could use that income to do more drilling and also get oil from these oils if they are on?

THE SECRETARY

Very sensible question. I don't know that I can improve on that speech. The policy that we have followed has been that importations of additional supply should not depress the market for American production. As you know, since the passage of the Natural Gas Policy Act something on the order of the equivalent of 400 billion cubic feet additional has moved into the interstate market. We are busily now searching for those firms and utilities that have dual capable facilities that can convert back either from distillate or resid to the use of natural gas. And, as a consequence, the market for natural gas has picked up. We will continue to do that until we have absorbed that surplus. If you have gas to sell, leave your name at the door and we will try and find a market for that because the first thing that we must do, for the very reasons that you outline, is to move domestic natural gas in order to provide the cash flow, in order to remove the overhang from the market and provide the incentives for additional drilling. That happens to be our first priority.

Now the question of negotiations for natural gas with Mexico, that would come in at a higher price. The point that we have been making to the Mexicans is that for the moment we have a surplus -- a domestically produced surplus -- that we want to see absorbed. So I don't think there should be any serious conflict between the two. What we are trying to do in contract to prior years is to bring about increased use of natural gas to save liquid fuels under circumstances driven both by the short-term and long-term emergencies represented by our dependency on foreign oil supplies. Is that satisfactory?

QUESTION

As I understand it, the energy bill is meant -- the previous two energy bills -- we were only selling through interstate. But we still have no market other than the local Texas Petroleum Company that have always sold to. We are only charging $2.01 for the gas.

THE SECRETARY

That is approximately the price -- roughly the price that you receive -- in the interstate market today. Once again, I think that TIPERO, or whatever organization, ought to establish in effect an information bureau or even a marketing bureau to see where there is gas available in Texas.

QUESTION

Its all over. Its not only our organization, there are hundreds of wells in the same position that ours are.

THE SECRETARY

Well we have been encouraging the movement to natural gas. You may have noticed that in Southern California, Consolidated Edison of New York etc. have been moving back towards gas and away from the use of distillate. And wherever we have been able to define a market here in the United

States we have encouraged that move to gas. We estimated originally that there was about a trillion cubic feet of gas per year production surplus down in the intrastate markets. We believe that we have successfully found markets just in recent months for about 400 billion cubic feet and we are going to go on.

As you probably know, as a result of Iran the International Energy Agency has called upon all member countries, including the United States, to cut its impact on the world oil market by about 5 percent. The chief vehicle for doing so has been the shift from oil to natural gas in those plants that are dual capable. We are anxious to have that kind of information. I think that surplus is beginning to dry up to the extent that we can identify large quantities of gas so that we can give confidence to buyers that indeed that gas will be available two, three and four years from now -- we will be able to move it more quickly.

Sir.

QUESTION

Isn't two of the real basic reasons why we have got a energy crisis today is number one, because we regulated the price of domestic oil and, number two, energy has just really been too cheap in this country too long?

THE SECRETARY

They are certainly contributing factors. Let me start with the natural gas situation. One of the problems that I referred to in my response to the first observation comes from in the area of natural gas in which the price of natural gas in the interstate market was held to very low levels. It was dependent upon a previous period in which the supply of natural gas came primarily from the production of oil and associated gas that came up with it. Those prices were unrealistically low. What we have done in the natural gas legislation is to provide incentive prices that gradually will approach the world market price in terms of Btu equivalent for crude oil. And that is appearing over a period so that the price of natural gas in constant dollars will reach about $2.60 by 1985, five years from now. That is a way of phasing out a system of natural gas controls. The problem of oil is similar, but oil has been controlled through a shorter period time, only basically since 1973-74 when we had this enormous upswing in international oil prices. As you know, the President's program once again is to phase out controls over the next 28 months. We have not found that uniformly welcome on Capitol Hill and there is a great deal of protest, as you might imagine, from consumer groups. But the purpose is to phase out controls. They have been a contributing factor. On natural gas I think it has been a major factor. In the case of oil, it has not been. We are in a period in which we are facing decline rates. Those decline rates have occurred more rapidly than they need simply because of the price control system, but even in the absence of price controls we have serious limitations on our resource base. Eighty percent of all the wells that haver ever been drilled in the world have been drilled right here in the United States. The United States has the most exploited and depleted oil resource base in the world. We here in the United States use about 60 or 65 percent of all the gasoline that is used in the world. We have about 5 percent of the oil reserves. It is not going to be possible in the long run for us to use so high a proportion of the world's gasoline simply dependent upon our own domestic resource base. Unquestionably price controls have not been any help. The fact that prices have been as low as they have have encouraged consumption as you have indicated. But we should not kid ourselves, there remains a geological problem that there is a limitation on our natural resource base. Twenty-five years ago we found reservoirs of 500 million barrels, 600 million barrels quite frequently.

Now, as a result of drilling, we find reservoirs of 2, 3 maybe 10 million barrels. It takes a lot more drilling, the response is much less, we are just beginning to deplete our domestic resource base.

Sir.

QUESTION

Mr. Secretary, you said earlier that the farm industry in America is highly dependent on oil -- energy dependent as you put it -- and it is my impression that if somebody were to study the various industries in the country that the return on investment or return on energy might be higher in that area than any other area you may want to consider, particularly when you consider that the farm industry contributes heavily to a more positive balance of trade. Have any studies been undertaken to compare the energy efficiency from one industry to another?

THE SECRETARY

Yes sir, we have those studies. Generally speaking the American industry has been less energy efficient than has European industries or Japanese industries and the reason is that in the past we have regarded energy supply as boundless.

The Europeans have not. The price of energy in Europe is historically been higher than it has been in the United States. As a consequence, they have generally incorporated more energy efficient technology. Our home here in the United States are notoriously inefficient. Installation is absent, we have countless mobile homes which we produced after World War II which have virtually no insulation. And the consequence has been that the energy efficiency in our homes has been very low. Energy efficiency in industry has been lower than in Europe or in Japan. It is improving more rapidly now as a result, in part, of higher prices than it is elsewhere in the world. It will take us many years once again to close that gap. But that is the nature of changing our composition of our capital stock and capital equipment and we are not going to abandon existing capital equipment simply because its energy inefficient because of the residual value that is left in it.

Sir.

QUESTION

Right now, just today, we were told that $30 billion worth of agricultural parts will be exported throughout the world and my impression still is how much energy did it take to arrive at $30 billion worth of exportable goods versus, for example, the steel industry or -- getting personal here -- any other industry that you might care to mention?

THE SECRETARY

I don't have that number handy. My estimate would be that it is one the order of 500,000 barrels of oil a day equivalent -- that is something on the order of 500,000 to 1 million barrels of oil a day -- something on the order of 5 percent of our Nation's energy use or a little bit less. But in terms of its productivity in generating foreign exchange, it is a very wise and effective investment of energy. I just can't give you the relative numbers.

Sir.

QUESTION

I live on the Mississippi River near one of the 23 locks and dams. Only one of those dams is generating electricity -- its been doing it for over 50 years. And as I travel over the world I see other countries are taking advantage of these rivers generating electricity -- cheap electricity -- that is replacing oil. Is there any reason that we can't do that in our 23 dams that that river flows through every day of the year, 24 hours a day?

THE SECRETARY

No, and we have the Corps of Engineers working on behalf of this Department to do a nationwide survey of existing structures to see which of them now can produce electricity on a reasonably economically basis. Then when we have that list, we can go down it and gradually see those facilities that ought to be added. As you know, in the past prices have been very low -- once again going back to the second question. Frequently in the Northeast the effect of having very low oil and natural gas prices was to bring about the shutting off of existing hydro facilities. Natural gas after World War II was so cheap in this country that existing solar energy equipment was shut down. And, similarly, with the price of oil and natural gas so low the consequence was that we did not make those additional capital investments to capture the energy in bodies of flowing water. But we will be turning to that increasingly. The substantial rise in the cost of oil and natural gas has made that economical. Since it is economical, we ought to be moving in that direction and I think we shall as a country.

Sir.

QUESTION

Mr. Secretary, what is your opinion of the potential for agriculture and agricultural land in the long run to being an energy producer?

THE SECRETARY

The potential is there. As you know, as a result of the tax credits that we embodied in the National Energy Act just passed by the Congress, there is a lively interest just in the producton of gasohol and we have limited capacity to produce it, but service stations in Illinois and Iowa and other places now increasingly are demanding the use of alcohol fuels. And, I think that this is in large degree due to the implicit subsidy when we remove the 4 cent tax that existed on gasohol in the National Energy Plan. The effective of that is a subsidy of about $16.80 a barrel compared to fuels that have been produced from ordinary crude oil. Now how much of that is going to grow? If you recall the President's speech of two weeks ago, what he did was propose two additional features to make permanent the removal of that tax because it was only removed up to 1982-1984 or somewhere in there, and there was not the willingness to make the investment into distillary capacity given there and also the tax credit given for investments in such capacity. I think if the Congress goes along with that legislation you will see a steady growth of the use of alcohol fuels gradually incorporating -- making use of an additonal proporation of land for the production of fuels. It will be many years before we are up to the 10 percent that we readily use in an automobile engine. We are producing in effect about 2,000 barrels a day and to provide that 10 percent that would be on the order of 150,000 barrels a day. That is immense potential demand. Alcohol made from corn or soybeans or what have you is fairly expensive. To the extent that we can take the waste products, agricultural residues and convert them into alcohol we will have a reasonably cheap fuel that will be an augmentation to farm income, provide supplies of energy and not be as costly as it would be if you had used shelled corn, for example, for the production of alcohol fuels.

Sir.

QUESTION

Under your present energy program and ______________ those limitations that you are operating under, do you really feel we have a good comprehensive energy program and, if not, what would you do to improve it?

THE SECRETARY

It is not comprehensive. I used to refer to our comprehsive energy program as a semi-comprehensive energy program. You have heard of the moral equivalent of war, I used to refer to it as the moral equivalent of the Chinese water torture -- drip, drip, drip -- its the only way you can get there. Energy, of course, effects every interest group in the United States. There is built in resistence to any change. There are regional differences. It is characteristic in this country that whatever region one goes to feels that it is being inequitably treated on energy matters relative to all other regions. And they all can't be right. Some of them, indeed, have been inequitably treated in one area in one respect -- and they brood upon that and other respects. So there is an immense resistence to adjustments in our energy programs and that means that instead of having a single sweep of a hand and putting in a new comprehensive energy program, what we have to do is make adjustments gradually year by year, three yards and a cloud of dust as they used to say on the football field. Energy also must be traded off against other objectives. In some respects, what you might want to do, if you did not worry about the reactions of the public, if you did not worry about the impact on the cost of living and on the rate of inflation, you might want to sever those price controls immediately. You cannot do that in some areas simply because of the immediate impact on the family budget and the impact on the cost of living. If energy considerations alone were to be considered, one would immediately remove all these price controls. But energy objectives must be traded off against other objectives. In other respects we should be moving ahead more rapidly with regard to installation of alternative energy sources, with development of synthetic fuels, not only from alcohol from agricultural products, but from coal. We should be moving ahead with the gasification of coal more rapidly than we are, but all of this costs money and, consequently, will require many many years. One of the driving forces is the very unpleasantness that I mentioned at the outset; that we are going to be increasingly stringent in the availability of oil and the price of oil will tend to continue to rise. And, as we do so, we will feel the pressure as a Nation to make these kinds of adjustments. But the American habits with regard to the use of energy are to deeply ingrained to bring that all about immediately.

Sir.

QUESTION

Don't you think that as the price of oil goes up private money may just develop some of those sources of energy or types of energy, private mines without any expenditure at all ___________?

THE SECRETARY

That, I think, is correct. There is a fundamental problem that you have to deal with and that is to development of high-risk new technologies. The market forces will being these technologies into play many years later after the pain has begun to be felt through shortages, through high prices. By providing Government support for development of new technologies, the gasification, the liquefaction of coal, we can have those technologies in place, let us say, in the early or middle 1980s so that as the price of oil becomes such that it justifies major private investment all that we have to do is replicate those technologies. That, indeed, is the way that we acquired nuclear power plants. It is the way that we are in a position to make greater use of hydro power. All in all, the expenditures in these areas are, while significant, still modest. The total expeditures on energy research and development in this country run about

$3 billion a year. You could rely upon the market, but I think that you would find that for a major transition of this sort that market forces could be painful or more painful than is necessary. Let me say one thing else in that connection, that in the United States -- we have not experienced in the United States anything domestically quite as painful as the forthcoming energy problem. That unless we attend to it and attend to it carefully what we could have in the middle 1980s is a rapid run up of energy prices, really rapid, doubling, tripling. An acceleration of the rate of inflation, the growth of unemployment, and the consequence of that would be the general public might lose faith in our existing social and economic institutions. And that the country would be in the same under the same kind of social and political pressures that it was during the great depression during the 1930s. Above all else, if we want to preserve our social and political institutions we must avoid the political repercussions that could come from inattention to the energy problem.

Sir.

QUESTION

During the first quarter of this year we saw one of the most rapid rates of inflation we have seen for quite some time and a large part of it was due to inflationary food prices. Now we are seeing another sector of our economy take off, which is the energy price increases, and in all due respects the food price increase -- the bulk of it this year -- could well have been felt. What do you see as the impact of the energy price increases on our overall inflation rate that remain a part say of the next two or three quarters -- lets go on a whole and say the 13 or 14 percent level?

THE SECRETARY

I would think that it would. I think that you have seen a surge of oil prices of the first three or four months of this year reflecting developments in Iran. It will take some period for that surge fully to work itself out. Indeed, we may have further increases in the price of oil internationally later on this year when OPEC meets, but I think that the great surge of prices internationally in the world oil market probably has already occurred. I think you can expect a continued impact on the inflation rate coming from energy prices, but it should not increase from this point and might taper off. That does not mean that energy prices will be increasing as slowly as it were as the general price level, however.

Sir.

QUESTION

The petroleum companies are now on the voluntary allocations. Is that working and do you feel that the Government will have to step in later if not?

THE SECRETARY

I hope -- it is working, of course, and is working painfully in some parts of the country. Some parts of the country, the West, are on 90-91 percent allocation. Various Eastern States are on 94 percent allocation. It is painful because many many service stations close on weekends without any prodding from Government, simply because they can exhaust their allotments in a normal working week. It is painful for the tourist industry, which is so much dependent on relatively confident access to low priced gasoline so these industries are suffering. But it is working and I think it will continue to work.

QUESTION

Will agriculture get their needs -- 100 percent of their needs -- do you feel?

THE SECRETARY

We are working industriously on that. Where we have found potential shortages we have acted in such a way as to alleviate those potential shortages before it begins to impact the agricultural sector. A few weeks ago, for example, I had calls from Senator Bumpers of Arkansas, Senator Eagleton of Missouri worried about the availability of diesel fuel in the agricultural regions of their States. We took action to see to it that it was available. We are clearly aware that agricultural use, particularly during the forthcoming season of planting, they must have a very very high priority and that, as a consequence, if the allocation fraction for gasoline has to be reduced somewhat in order to see to it that the food is grown, that is a responsibility for the Federal Government.

Sir.

QUESTION

Many people should that we should barter food for oil on a country-to-country basis. Do you see this as someting in the near future?

THE SECRETARY

No. I think that that has an intuitive appeal. We know that the people in the Persian Gulf -- oil rich Persian Gulf States -- must eat and they must import the food. And, therefore, that the bargaining relationship intuitively one feels is easy to work. But these are States with very low populations. A handful of people in some of those States. Three or four million, five million in other States, and they are in a position that they have very considerable cash reserves. They can go to other countries readily -- to Canada, to Australia -- to acquire their very minimal food requirements. So I don't think it is an effective tool given the world markets that we face, and I an not sure that if the full consequences to barter were to be employed that that would be welcome to you -- all of you -- because it would impede very much the exporation of agricultural products from the United States.

Yes Sir.

QUESTION

Further addressing this question about allocation, we have had a problem in Alabama, and two questions. One is, do you anticipate a black market in fuel oil developing because of this. We seem to detect that because we have been able to buy fuel if we could offer a premium price for it. And secondly, what process would the farmer go through to have additional allocation in events he has, as in our case, expanded his operation to the point that we would need additional allocation?

THE SECRETARY

The allocation, of course, is based upon the cooperative of the filling station or what have you. It is not -- in many cases -- it is not based upon individual farms. You have a whole train of operators from the refinery to the final user. We have rules for allocation which provide for adjustment for larger than normal growth and I believe, although I am not familiar with it -- with those specific rules, that they would accommodate an individual situation such as you mention. Before you leave you can pick the appropriate -- (is Jim around?) -- you can pick up some phone numbers that you can call here in Washington or in your region if you have a special problem.

We have tried, of course, to respond to what are the seasonal needs of agriculture by, in this very tight market, providing the appropriate stimulus to the refiners to provide the necessary diesel fuel or gasoline or other products necessary for the agricultural community. There is a general shortage. It would not surprise me, indeed, I am quite certain fuels are being sold at prices in excess of the nominal ceilings. As you know, we have removed ceilings from diesel fuels, we have removed ceilings from everything except gasoline. Gasoline, I suspect, in various places is being sold at excess prices. Refiners under the existing framework are not permitted to charge higher prices. There may be some slow of product even from the refinery gate at prices that are in excess and you can develop a kind of daisy chain in which prices are marked up at different stages of the marketing process. You have got two choices. You can call that to the attention of the authorities and they will investigate, and one consequence may be that the supplies go elsewhere, or you can live with the knowledge that the prices are above the normal ceiling but that you have fuel availability. I don't know which one I would follow if I were in your position.

QUESTION

What do you want to say by way of conclusion, if anything, about Three Mile River and all that, and nuclear power?

THE SECRETARY

I think its clear that nuclear power should be a part of our long-term energy mix in this country. That because of the oil supply situation that I described earlier that can lead one to the conclusion that one must make use of nuclear power. we will have to investigate the safety implications of this particular accident but in the long run we cannot afford not to make use, major use of nuclear power in our total energy mix.

QUESTION

And, I take it you are confident in our ability to regulate and control the use?

THE SECRETARY

Yes, sir. Our confidence, one must recognize of course that there is no area of life that is without risk. Production in the use of coal, minus the tills every year, . . .

QUESTON

Tankers have been known to split up.

THE SECRETARY

That has occurred. We have even had fires of LPG. There is an increasing desire on the part of many people who have enjoyed security all their life to have a totally riskless environment. That is an understandable desire, it is not something that we can satisfy at anything near reasonable costs.

QUESTION

On the day of the breakdown, a chemical plant blew up in the area killing one person and burning the skin off four. It didn't get in the papers.

THE SECRETARY

We have grown to expect that there is a certain drama to a nuclear accident. This is the first serious accident in the history of nuclear power and, even so, even despite the seriousness of the accident, nobody has been killed and nobody in the entire history of commercial nuclear power has been killed. My onw judgment is that if we want to make our energy situation worse we will not make use of nuclear power. We live in a period -- because of that desire for avoiding all of the risks while obtaining the benefits of energy production -- we live in a period in which people are against the transportation of liquefied natural gas they do not want to have pipelines, they do not want drilling offshore, they do not want coal mines, strip mining in the vacinity, and so on, and so on, and so on. If you aggregate the effects of all of those limitations, we will have a crippled economy. We cannot afford that. Thank you.

QUESTION

Or the luxury of being living ____________. We thank you and it is great to do this. We know what pressure you are under.

THE SECRETARY

Welcome to the Forrestal. Thank you.

STATEMENT OF

JAMES R. SCHLESINGER

SECRETARY OF ENERGY

BEFORE

THE HOUSE BUDGET COMMITTEE

AUGUST 1, 1979

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today to discuss the impact of recent energy developments on the economy and fiscal policy.

Over the course of the past 2 years, I have discussed with Committees of the Congress on several occasions the future prospects for world oil production. When those discussions began, I expressed doubt that world oil production by conventional means would increase by more than 20 percent from then prevailing levels or would ever reach more than 70 to 75 million barrels per day. Developments since that time, however, have been even less promising and we now have little assurance that world oil production will ever exceed 65 million barrels per day -- little more than present levels.

Thus, the long-term oil supply outlook is indeed grim. Moreover, the shock of events in Iran has resulted both in a further reduction of supply projections and, simultaneously, in telescoping the time in which longer term energy stringencies affect supply/demand balances. The challenge this Nation faces over the course of the next decade to develop adequate supplies of energy to maintain the country's economic health and strength is substantial.

For the time being, increased crude oil imports and refinery utilization are leading to a slightly improved supply picture. The projected level of imports for the remainder of the year should ease gasoline shortfalls and provide adequate distillate stocks for home heating needs this winter. Taking into account the suppressed level of imports earlier this year, these objectives can be met within the framework of the 8.2 MMB/D import quota for 1979 set by the President. But the U.S. cannot continue to rely indefinitely on the willingness of some countries to increase production when other countries experience a decrease in output. Nor can this Nation afford the price tag associated with such reliance.

Since 1970, U.S. production has been declining while increased demand has been met by imports. This continued dependence on imported crude oil and products is raising the cost of everything that uses petroleum products, putting pressure on the dollar and draining off real resources that would otherwise go to increasing economic growth and employment. The OPEC oil price decision announced in Geneva on June 27 represents a 58 percent increase over the prices adopted by OPEC in its March 1979 meeting. Even with the conservation induced by the National Energy Act, decontrol of crude oil prices, and the lower demand arising from crude oil shortfalls, these prices increases will mean:

- o The U.S. oil imports bill for 1979 will be about $56 billion, up from $42 billion in 1978. In 1981, the U.S. would pay some $70 billion for petroleum imports at the level of the Tokyo Agreement.
- o Real GNP growth will be reduced by up to one percent below previous forecasts for 1979 and an additional one percent in 1980.
- o Inflation will be up to one percent higher in 1979 than previously expected, and an additional one percent higher in 1980.

Unfortunately, this will probably not be the last adjustment the U.S. will be forced to make to rising world oil prices. The U.S. and the West will be continually susceptible to minor fluctuations in world oil supply as long as worldwide demand continues to place pressure on available supplies.

The President called the Nation's attention to the dangers of this growing dependence on imports in April of 1977 when he proposed the first National Energy Plan. As enacted, that program placed major emphasis on the importance of both conservation and production, including measures to:

- o provide a broad range of tax credits and regulatory measures directed at encouraging conservation in homes and businesses;
- o encourage utilities and industries to use coal in new facilities;
- o establish a single market for natural gas sales, and increase production incentives through phased decontrol;
- o tax inefficient automobiles;
- o encourage more efficient utility rate structures.

This program is estimated to save approximately 2.5 MBD of imported oil by 1990.

As estimates of world oil supply potential continued to be revised downward, in April of 1979 the President proposed a program to complete the major piece of unfinished business in the National Energy Plan -- oil pricing. This program included phased decontrol of crude oil, coupled with enactment of a Windfall Profits Tax and a broad-ranging series of conservation tax credits.

On June 20, the President announced a comprehensive strategy for solar energy, including proposals for a Solar Bank and a number of tax credits. The President articulated a national goal of meeting 20 percent of our energy requirements with solar technologies. The decontrol and solar programs taken together are estimated to save another 1.5 million barrels per day of oil imports by 1990.

Finally, as the seriousness of the world supply situation became apparent as a result of the events in Iran, the President proposed a broad range of additional initiatives on July 16 designed to save another 4.5 million barrels per day of imported oil by 1990. These initiatives include:

- o New residential conservation incentives, including financial assistance for the retrofit of homes heated by oil;
- o Creation of an Energy Security Corporation to develop synfuels and unconventional gas, directed at saving 2.5 million barrels per day of imported oil by 1990;

- o Creation of an Energy Mobilization Board to expedite approval and construction of new energy facilities;
- o The immediate decontrol of heavy oil and exemption of heavy oil from the Windfall Profits Tax;
- o Phase-out of fifty percent of oil used in utility boilers by 1990;
- o Tax credits for oil shale and unconventional gas production;
- o A major allocation of additional resources to improve mass transit and auto efficiency.

Since April of 1977, the President's actions have placed a major emphasis on conservation, conventional production, and fuel switching. Nevertheless, the U.S. will also require significant amounts of liquid fuels in the face of decreasing conventional oil supplies -- particularly for transportation. This Nation has the means to produce these liquid fuels from its vast coal reserves, and from agricultural products. Such synthetic fuels can substitute in automobiles, homes and factories for conventional oil products. They can be produced within our own borders and, most important, they are based on resources that will carry us well beyond the 21st Century.

of conventional oil and gas production. It offers the opportunity to reduce oil imports by one-half in 1990. Congressional action on these proposals and the Windfall Profits Tax from which these programs must be funded is of the highest priority.

COSTS AND IMPACTS OF THE PRESIDENT'S PROGRAM

The full cost of the President's program will be a function of a broad range of difficult to predict variables, including the future world price of oil. For cost estimating purposes, a real growth in world oil prices of 2.4% was assumed; under these assumptions the program is estimated to cost approximately $142 billion, including $88 billion in budget authority for the Energy Security Corporation. The remaining $54 billion is divided between the conservation and production initiatives, the transportation programs being developed by the Department of Transportation and the low income assistance program. A detailed accounting of these illustrative program costs has already been provided to the Committee.

The $88 billion in budget authority available to the Corporation is based upon hypothetical assumptions about the mix and cost of the plants to be financed, world oil prices, and production costs for synthetic fuels. The budget authority provided the Corporation must be large enough to give it flexibility in tailoring its financing incentives to the projects needed to meet the President's goal of 2.5 million barrels per day. It must also provide investors assurance that the Corporation will meet its contractual obligations.

The Corporation's management may be able to accomplish the goal with financial incentives which do not require this level of expenditures. However, the $88 billion estimate is the Administration estimate of what the Corporation needs in financial authority to achieve the goal. The $88 billion is an upper limit because the Corporation will be required to obligate a portion of the authority for the liability of each contract when it is signed.

Although the cost of a synthetic fuels and unconventional gas program could be high, the cost of not making these investments could be higher still. Unless the Nation can reduce its vulnerability to disruptions in foreign sources of supply, it will continue to be troubled by high inflation, reduced economic growth, reduced employment, and disruptions in lifestyles.

Revenues from the Windfall Profits Tax will be used to pay for the import reduction program, and, as a result, there will be no increase in the budget deficit. An estimate of total revenues from the Windfall Profits Tax is also subject to a wide range of variables. Depending on world oil price levels, these tax revenues are estimated to range from $146 billion to $270 billion under the Administration bill. The Committee has been furnished detailed estimates of the expected windfall profits revenues as well as the costs of the President's program in connection with the markup of the Second Budget Resolution for 1980.

It is important to remember that the Windfall Profits Tax begins generating substantial revenues in 1980, with a further acceleration in the level of those revenues as world oil prices rise. The fact that large portions of the outlays may come later in the decade, raises some question about the impact of the program on fiscal policy, notably with respect to the balance of receipts and expenditures.

I know this question is of special interest to this Committee, and is a matter about which Congress and the Administration must be particularly alert. While the actual differential between receipts and expenditures in any given year will represent only a very small percentage of total outlays, specialists in fiscal policy will want to closely monitor this aspect of the program. This is particularly true since the effects of the differential between expenditures and receipts is heightened either by rapidly rising world oil prices or by steady world oil prices which could result in substantial outlays and lower receipts.

The objectives of the President's program, and the Energy Security Corporation in particular, are of the highest importance to the Nation. In such instances, fiscal policy always can be made to adapt. In setting forth the program, however, it is important to understand that such a process of adaptation must be reviewed with continuing care by both the Administration and the Congress.

Finally, it is important to remember in reviewing all these considerations that implementation of the President's program depends critically on the passage of the Windfall Profits Tax. If the Tax is not passed in substantially its present form, the proposed programs would have to be cut back or eliminated altogether.

That concludes my formal remarks. I would be happy to answer any questions you may have.

U.S. DEPARTMENT OF ENERGY
OFFICE OF PUBLIC AFFAIRS
WASHINGTON, DC 20585

DOENEWS:

FOR IMMEDIATE RELEASE
JULY 12, 1979

SECRETARY OF ENERGY JAMES R. SCHLESINGER TODAY MADE THE FOLLOWING STATEMENT ON THE STATUS OF PETROLEUM SUPPLIES FOR THE WEEK ENDING JULY 6

In early June we outlined a number of actions for replenishing our seriously depleted distillate stocks. We pressed for increased utilization of domestic refinery capacity and tighter management of crude inventories, first to build heating oil stocks for the winter, and second, to ease the gasoline supply situation for the summer.

At that time, it was our judgment that given the projected availability of crude oil supplies for June and July, particularly with respect to crude oil imports, refiners were being "unduly conservative" in utilizing their crude inventories and refinery operations.

At our urging, domestic refiners have increased crude oil refinery runs by over one million barrels per day since the end of May (14.249 to 15.357 MMB/D).

At the same time primary stocks of crude oil have been drawn down over the last week by 3.6 million barrels, possibly indicating needed actions by refiners to make maximum use of inventories and not hold them higher than the mimimum levels necessary to sustain operations.

Utilization of operable refinery capacity has steadily increased from 83% to 90%, the highest rate so far this year.

Imports of crude oil, over the course of the past five weeks, have averaged almost 6.4 million barrels per day, confirming our judgment that imports had bottomed out in the month of May when they were below six million barrels per day.

(MORE)

With the increase in imports and refinery runs, distillate stock levels have improved by more than 27 million barrels since the end of May. During the last two weeks, distillate stocks climbed at an average rate of almost one million barrels per day. This rate is more than adequate to meet our target of 240 million barrels in October.

We will continue to monitor distillate stocks very closely and will not hesitate to take action if we see any indication that the rebuilding of distillate stocks is not proceeding at a fast enough rate to meet the 240 million barrel target.

Expectations are that July gasoline supplies will be somewhat higher than those for May or June. Current gasoline stock levels, at 232.6 million barrels, are in the normal range for this time of year and are, in fact, slightly above last year's inventory level for this date.

If crude supplies continue to be available at current levels, we should be able to avoid a recurrence of gasoline lines while concurrently rebuilding distillate stocks for next winter.

This recent performance and the announcement of increased production in Saudi Arabia are very positive developments. However, I should underscore that this is predicated on no deterioration in crude production on a worldwide basis. The authority of the central government in Iran is not yet entirely stable. There have been intermittent reductions in production of crude oil in that country and interruptions in the export of crude. The system continues to be stretched quite taut. Any further interruptions in production would alter the delicate balance between supply and demand. But the overall situation gives a basis for guarded optimisim.

- DOE -

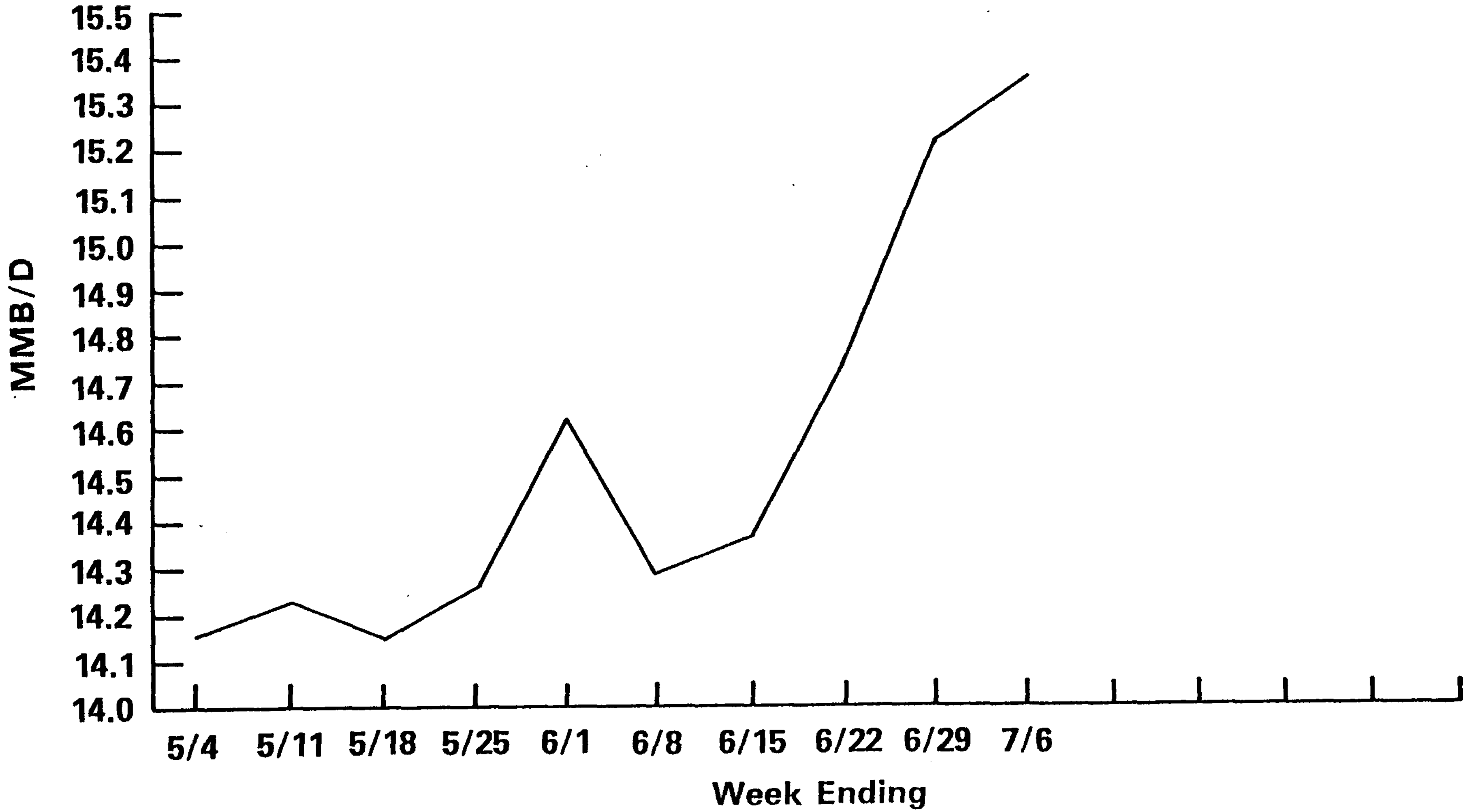
Attached are charts illustrating the current situation.

News Media Contact: DOE Newsroom (202) 252-5806

R-79-311

July 6, 1979

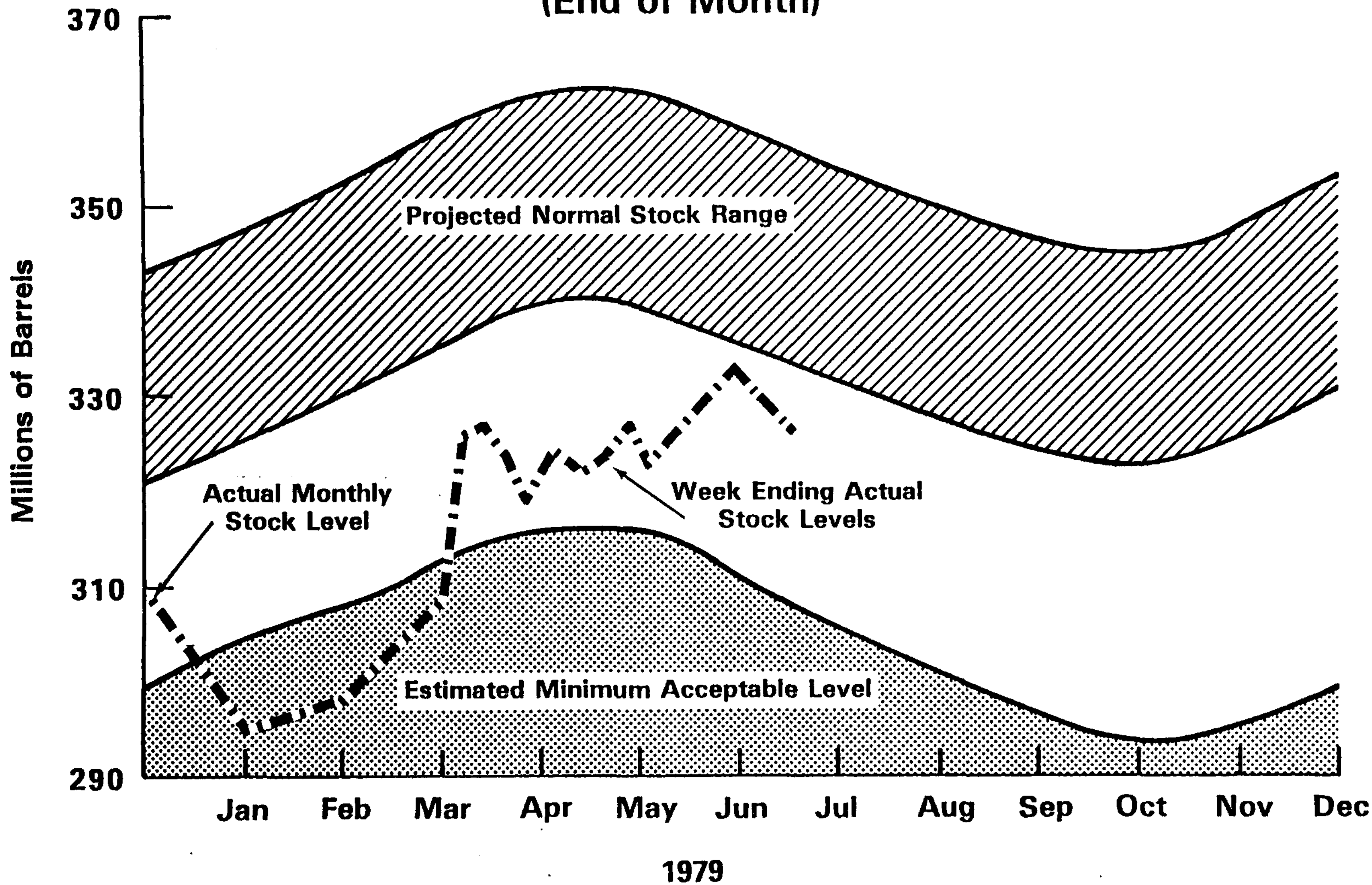
Crude Oil Runs To Distillation Units
U.S. Refineries



July 6, 1979

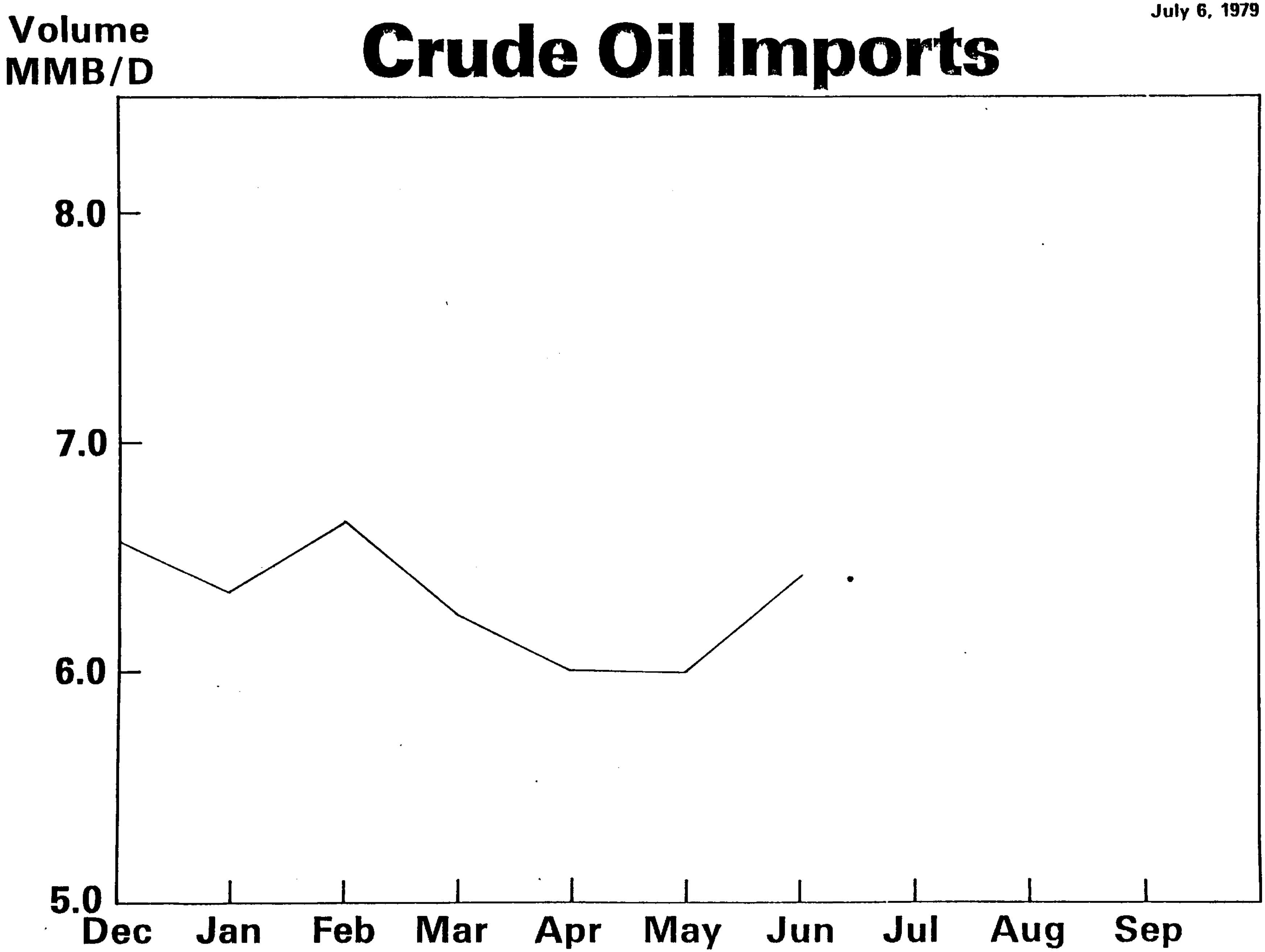
Crude Oil Stocks at Primary Level

(End of Month)



July 6, 1979

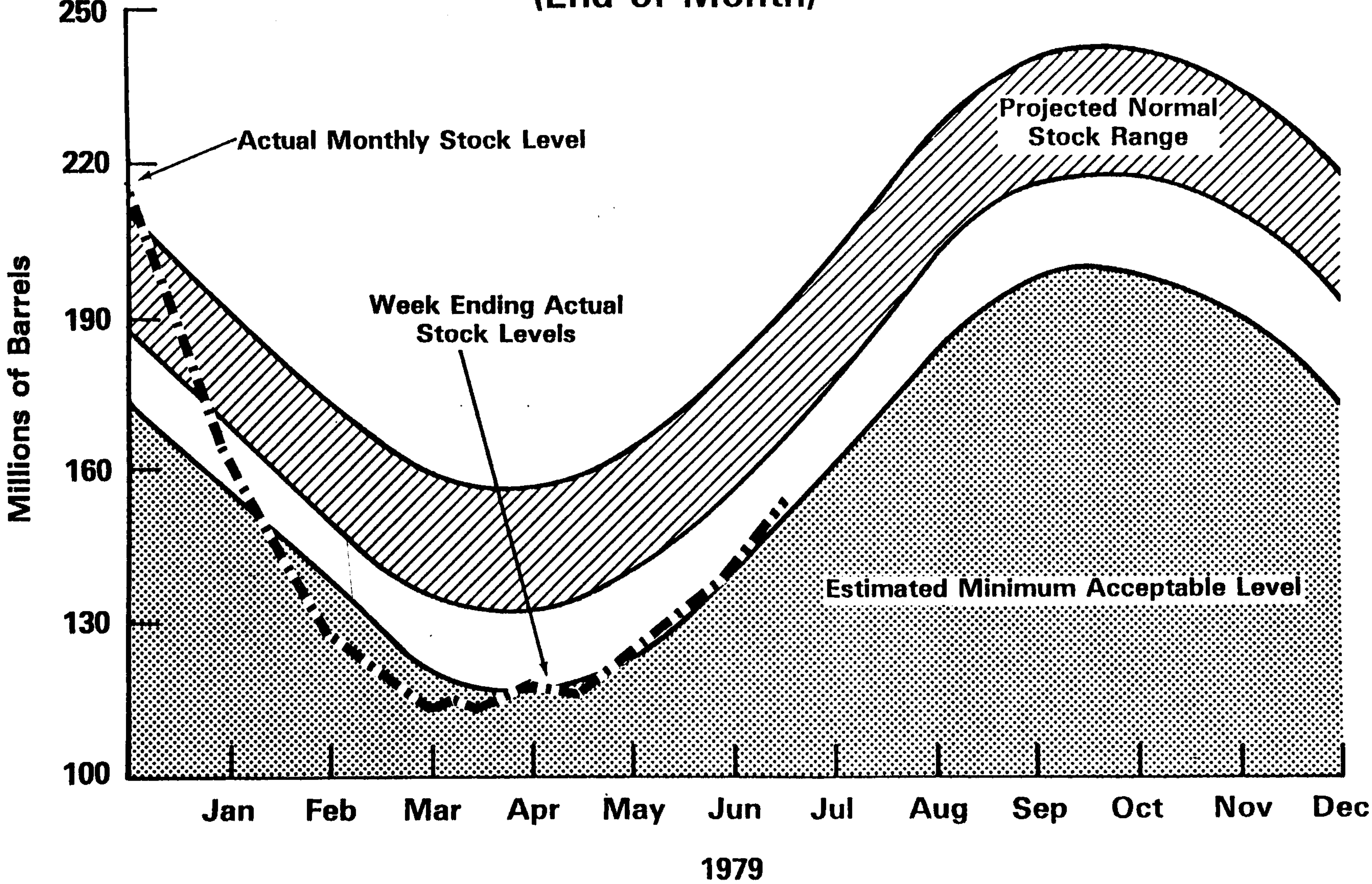
Crude Oil Imports



July 6, 1979

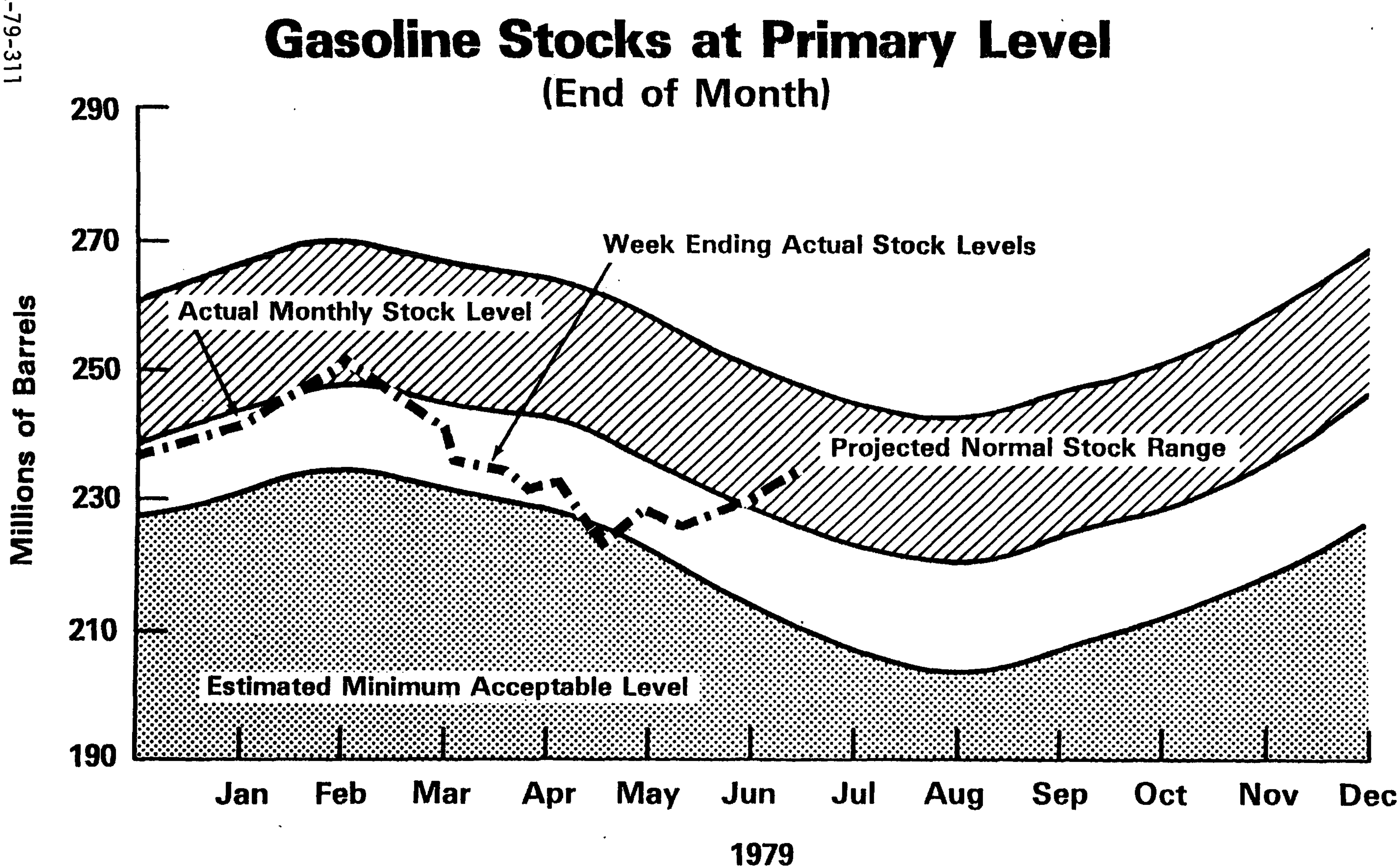
Distillate Stocks at Primary Level

(End of Month)



R-79-311

July 6, 1979



STATEMENT OF

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SECRETARY OF ENERGY

BEFORE

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For the time being, increased crude oil imports and refinery utilization are leading to a slightly improved supply picture. The projected level of imports for the remainder of the year should ease gasoline shortfalls and provide adequate distillate stocks for home heating needs this winter. Taking into account the suppressed level of imports earlier this year, these objectives can be met within the framework of the 8.2 MMB/D import quota for 1979 set by the President. But the U.S. cannot continue to rely indefinitely on the willingness of some countries to increase production when other countries experience a decrease in output. Nor can this Nation afford the price tag associated with such reliance.

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- Real GNP growth will be reduced by up to one percent below previous forecasts for 1979 and an additional one percent in 1980.
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Unfortunately, this will probably not be the last adjustment the U.S. will be forced to make to rising world oil prices. The U.S. and the West will be continually susceptible to minor fluctuations in world oil supply as long as worldwide demand continues to place pressure on available supplies.

The President called the Nation's attention to the dangers of this growing dependence on imports in April of 1977 when he proposed the first National Energy Plan. As enacted, that program placed major emphasis on the importance of both conservation and production, including measures to:

- provide a broad range of tax credits and regulatory measures directed at encouraging conservation in homes and businesses;
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- establish a single market for natural gas sales, and increase production incentives through phased decontrol;
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This program is estimated to save approximately 2.5 MBD of imported oil by 1990.

As estimates of world oil supply potential continued to be revised downward, in April of 1979 the President proposed a program to complete the major piece of unfinished business in the National Energy Plan -- oil pricing. This program included phased decontrol of crude oil, coupled with enactment of a Windfall Profits Tax and a broad-ranging series of conservation tax credits.

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Since April of 1977, the President's actions have placed a major emphasis on conservation, conventional production, and fuel switching. Nevertheless, the U.S. will also require significant amounts of liquid fuels in the face of decreasing conventional oil supplies -- particularly for transportation. This Nation has the means to produce these liquid fuels from its vast coal reserves, and from agricultural products. Such synthetic fuels can substitute in automobiles, homes and factories for conventional oil products. They can be produced within our own borders and, most important, they are based on resources that will carry us well beyond the 21st Century.

To achieve the goal of producing 2.5 million barrels a day of synthetic fuels and unconventional gas by 1990, two new institutional mechanisms are proposed. The first is the establishment of the Energy Security Corporation to coordinate and finance the development of synthetic fuels and unconventional gas projects. Second, the President has proposed the establishment of an Energy Mobilization Board to insure that critical energy facilities do not get bogged down in a myriad of Federal, State and local permits. The Energy Mobilization Board does not change current environmental laws. It is designed to ensure that the procedures required under these many different laws are coordinated and that deadlines for decisions are met.

The President's program represents a balanced program designed to take advantage of a range of opportunities available for improving the energy security of this Nation -- conservation, solar, synfuels, coal, and the enhancement of conventional oil and gas production. It offers the opportunity to reduce oil imports by one-half in 1990. Congressional action on these proposals and the Windfall Profits Tax from which these programs must be funded is of the highest priority.

COSTS AND IMPACTS OF THE PRESIDENT'S PROGRAM

The full cost of the President's program will be a function of a broad range of difficult to predict variables, including the future world price of oil. For cost estimating purposes, a real growth in world oil prices of 2.4% was assumed; under these assumptions the program is estimated to cost approximately $142 billion, including $88 billion in budget authority for the Energy Security Corporation. The remaining $54 billion is divided between the conservation and production initiatives, the transportation programs being developed by the Department of Transportation and the low income assistance program. A detailed accounting of these illustrative program costs has already been provided to the Committee.

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It is important to remember that the Windfall Profits Tax begins generating substantial revenues in 1980, with a further acceleration in the level of those revenues as world oil prices rise. The fact that large portions of the outlays may come later in the decade, raises some question about the impact of the program on fiscal policy, notably with respect to the balance of receipts and expenditures.

I know this question is of special interest to this Committee, and is a matter about which Congress and the Administration must be particularly alert. While the actual differential between receipts and expenditures in any given year will represent only a very small percentage of total outlays, specialists in fiscal policy will want to closely monitor this aspect of the program. This is particularly true since the effects of the differential between expenditures and receipts is heightened either by rapidly rising world oil prices or by steady world oil prices which could result in substantial outlays and lower receipts.

The objectives of the President's program, and the Energy Security Corporation in particular, are of the highest importance to the Nation. In such instances, fiscal policy always can be made to adapt. In setting forth the program, however, it is important to understand that such a process of adaptation must be reviewed with continuing care by both the Administration and the Congress.

Finally, it is important to remember in reviewing all these considerations that implementation of the President's program depends critically on the passage of the Windfall Profits Tax. If the Tax is not passed in substantially its present form, the proposed programs would have to be cut back or eliminated altogether.

That concludes my formal remarks. I would be happy to answer any questions you may have.

SPEECHES AND PRESS CONFERENCES MISSING FROM JRS' BOOK

SPEECHES

January 20, 1979	-	Speech - FY 1980 Budget Briefing
January 24, 1979	-	Unedited Statement - International Affairs Staff of DOE (Forrestal Aud.)
January 26, 1979	-	Speech - The World Affairs Council, (Pittsburgh, Pennsylvania)
March 14, 1979	-	Statement before DOE Headquarters Employees and Regional Representatives (Forrestal Aud.)
March 28, 1979	-	Speech - The National Association of Broadcasters (Dallas, Texas)
March 30, 1979	-	Speech - The National Association of Manufacturers (Washington, D.C.)
April 3, 1979	-	Speech - 47th Annual Convention, Gas Men's Roundtable (Washington, D.C.)
May 1, 1979	-	Remarks before the 67th Annual Meeting of United States Chamber of Commerce (Washington, D.C.)
May 10, 1979	-	Statement before the United States House of Representatives - The Committee on Ways and Means
May 21, 1979	-	Remarks before the Governing Board - IEA, Paris, France
May 25, 1979	-	Remarks before the Washington State University, Pullman, Washington
June 4, 1979	-	Remarks before the International Association of Energy Economists (Washington, D.C.)
June 12, 1979	-	Speech - before the Chicago Council on Foreign Relations, Chicago, Illinois - "World Energy - An Overview"
June 27, 1979	-	Speech - Forrestal Auditorium
July 11, 1979	-	Speech - before the United States Senate Committee on Finance

JRS - SPEECHES, PRESS CONFERENCES, ETC.

(Listed by Date
Oldest to Newest)

January 3, 1979	- Press Conference, Forrestal Auditorium, Washington, D.C.
Jaunary 7, 1979	- Face the Nation (CBS News) Washington, D.C.
January 9, 1979	- Remarks - National Association of Petroleum Investment Analysts and The Oil Analysts Group of New York, New York
January 20, 1979	- Remarks - FY 1980 Budget Briefing
January 24, 1979	- Comments (Unedited) - International Affairs Staff of DOE, Forrestal Auditorium, Washington, D.C.
January 26, 1979	- Speech - World Affairs Council, Pittsburgh, Pennsylvania
February 23, 1979	- Remarks - 23rd Annual National Outstanding Young Farmers Awards Congress, Burlington, Vermont
February 25, 1979	- Meet the Press (NBC News) Washington, D.C.
February 27, 1979	- Remarks - National Governors' Association Winter Meeting, Washington, D.C.
February 27, 1979	- Meet the Press (NBC News) Washington, D.C.
March 14, 1979	- Statement - DOE Headquarters Employees and Regional Representatives, Forrestal Auditorium, Washington, D.C.
March 20, 1979	- Press Conference - Forrestal Auditorium, Washington, D.C.
March 25, 1979	- Press Conference - JRS and F. Ray Marshall (Secretary of Labor), Briefing Room, White House, Washington, D.C.
March 28, 1979	- Remarks - National Association of Broadcasters Dallas, Texas
March 30, 1979	- Remarks - National Association of Manufacturers, Washington, D.C.
April 3, 1979	- Remarks - 47th Annual Convention, Gas Men's Roundtable, Washington, D.C.

Press Conferences and Speeches Con't.

April 11, 1979	-	Remarks - 47th Annual Convention, Edison Electric Institute, Atlanta, Georgia
May 1, 1979	-	Remarks - 67th Annual Meeting of U.S. Chamber of Commerce, Washington, D.C.
May 10, 1979	-	Statement - United States House of Representatives - Committee on Ways and Means
May 16, 1979	-	Press Conference - Gasoline Supplies for California
May 21, 1979	-	Remarks - Governing Board of the International Energy Agency, Paris, France
May 25, 1979	-	Remarks - The First President's Convocation, Washington State University, Pullman, Washington
June 4, 1979	-	Remarks - International Association of Energy Economists, Washington, D.C.
June 7, 1979	-	Press Briefing - Forrestal Auditorium, Washington, D.C.
June 12, 1979	-	Address - "World Energy - An Overview" The Chicago Council on Foreign Relations Chicago, Illinois
June 14, 1979	-	Press Briefing - Forrestal Auditorium, Washington, D.C.
June 21, 1979	-	Press Briefing - Forrestal Auditorium, Washington, D.C.
June 27, 1979	-	Statement - DOE News, Weekly Statistics on Oil Refinery Industry's Performance Washington, D.C.
July 11, 1979	-	Statement - United States Senate, Committee on Finance

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March 14, 1979

12. Press Conference
Forrestal Auditorium
Washington, D.C.
March 20, 1979

13. Press Conference
JRS & F. Ray Marshall (Sec. of Labor)
Briefing Room, White House
Washington, D.C.
March 25, 1979

14. ~~Remarks~~ Speech
National Association of Broadcasters
Dallas, Texas
March 28, 1979

15. ~~Remarks~~ Speech
National Association of Manufacturers
Washington, D.C.
March 30, 1979

16. ~~Remarks~~ Speech
47th Annual Convention, Gas Men's Roundtable
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17. ~~Remarks~~ Speech
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18. ~~Remarks~~ Speech
67th Annual meeting of U.S. Chamber of Commerce
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~~19. Statement~~
~~United States House of Representatives~~
~~Committee on Ways and Means~~
~~May 10, 1979~~

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Gasoline Supplies for California
May 16, 1979

~~21.~~ 20 ~~Remarks~~ Speech
Governing Board of the International Energy Agency
Paris, France
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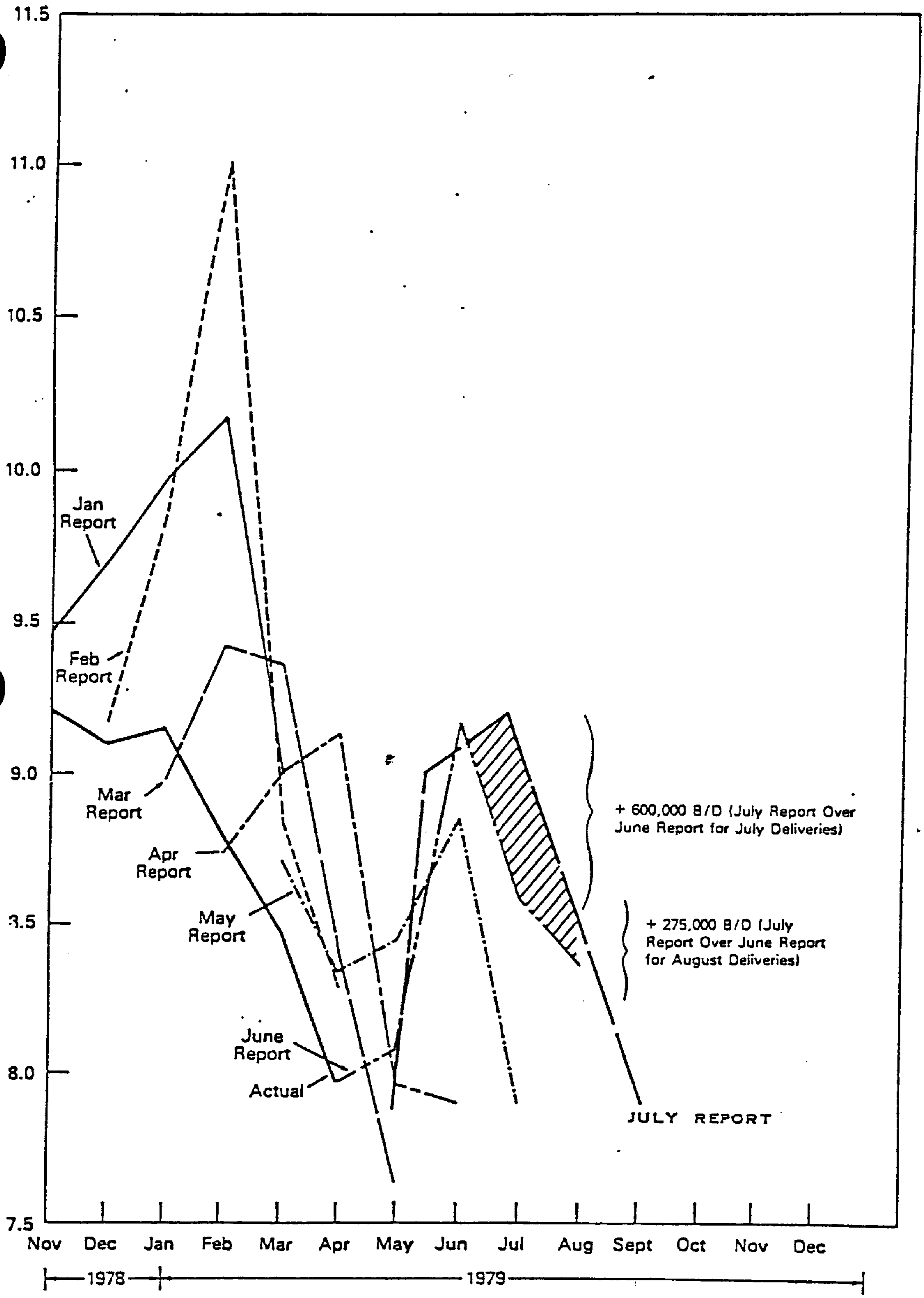
Anticipated U.S. Imports of Crude and Product January-Sept 1979[1]

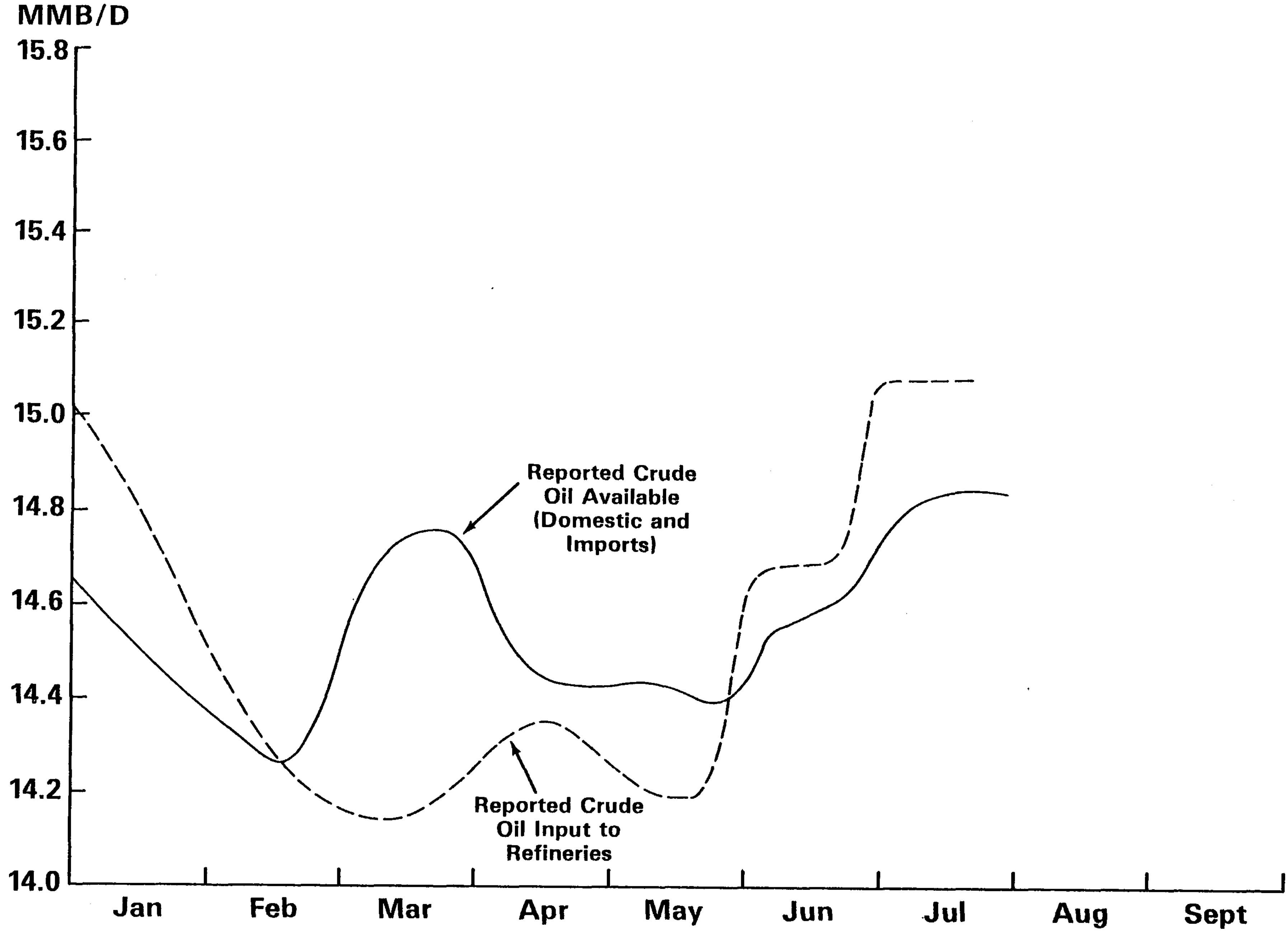


[1] Includes imports of crude oil and refined products to the 50 states plus Hawaii, Guam, Virgin Islands (crude imports only) and the Strategic Petroleum Reserve.

Sources:
(A) IEA Monthly Questionnaire B Reports for Projections; and
(B) DOE/ERA-60 (P113) Reports for actual data, converted to IEA reporting basis.

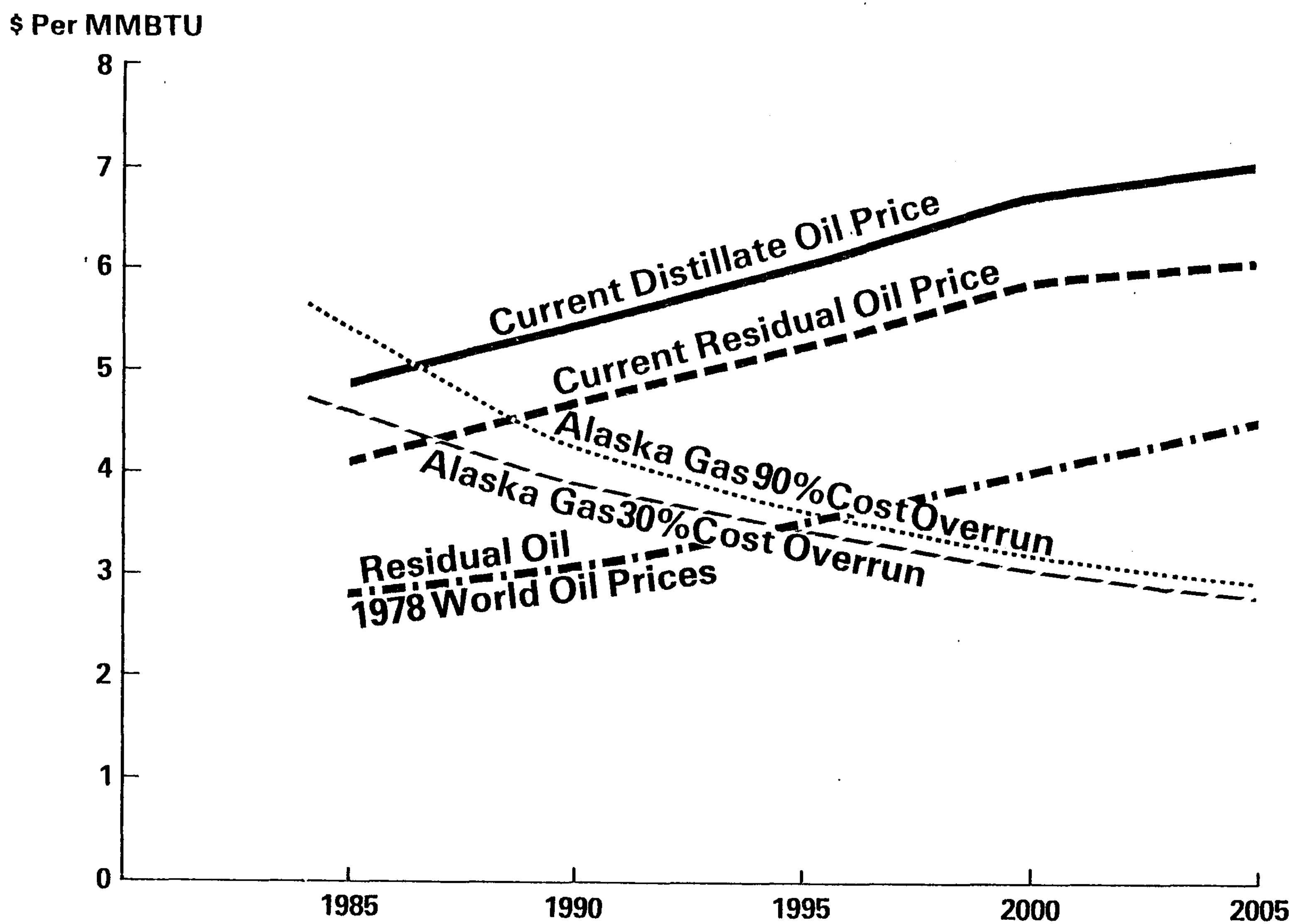
July 27, 1979

Comparison of Crude Oil Production and Imports With Crude Oil Input to Refineries



Alaska Natural Gas Costs Compared With Petroleum Product Costs *

(1979 Dollars)



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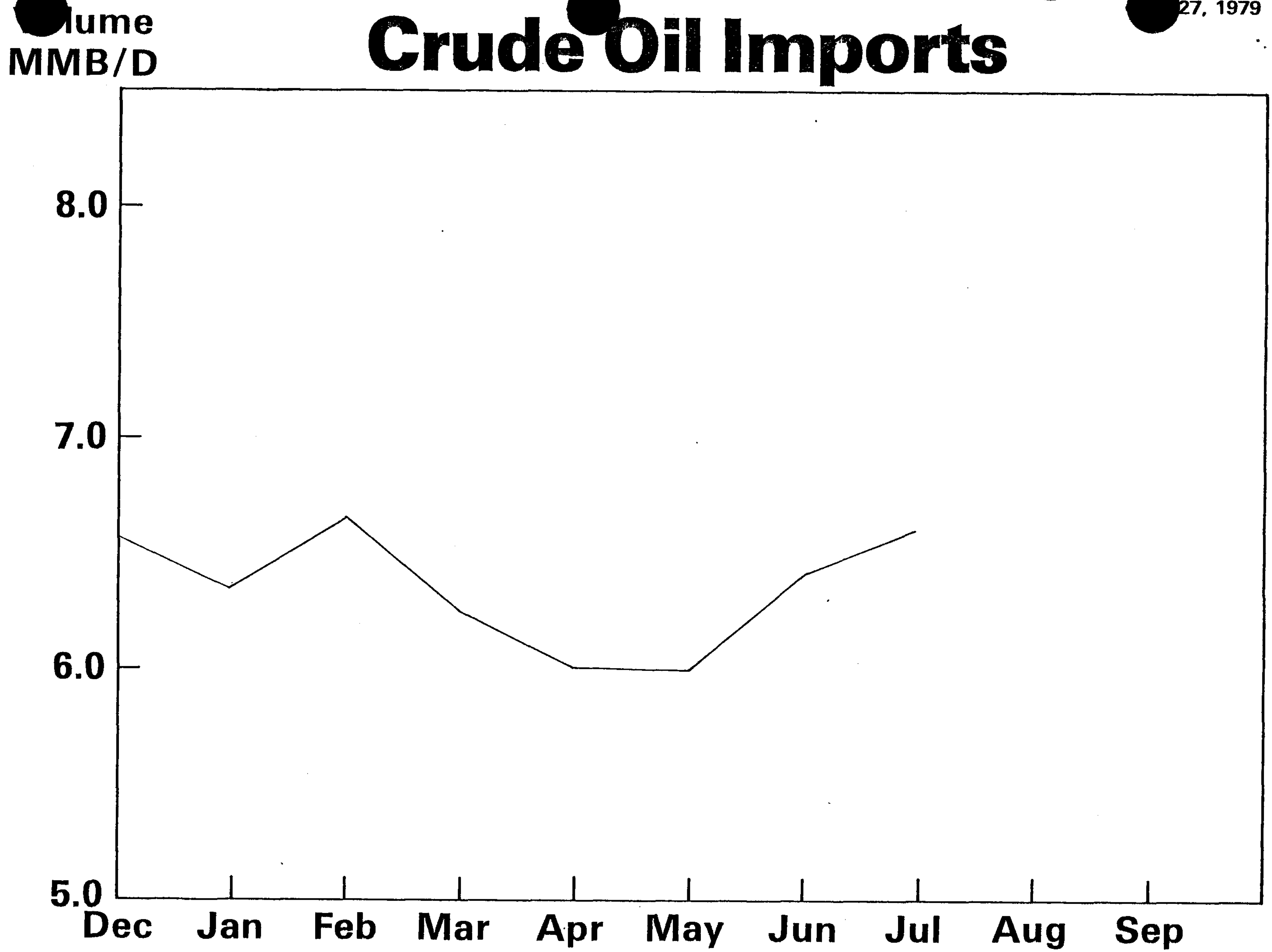
Crude Oil Imports



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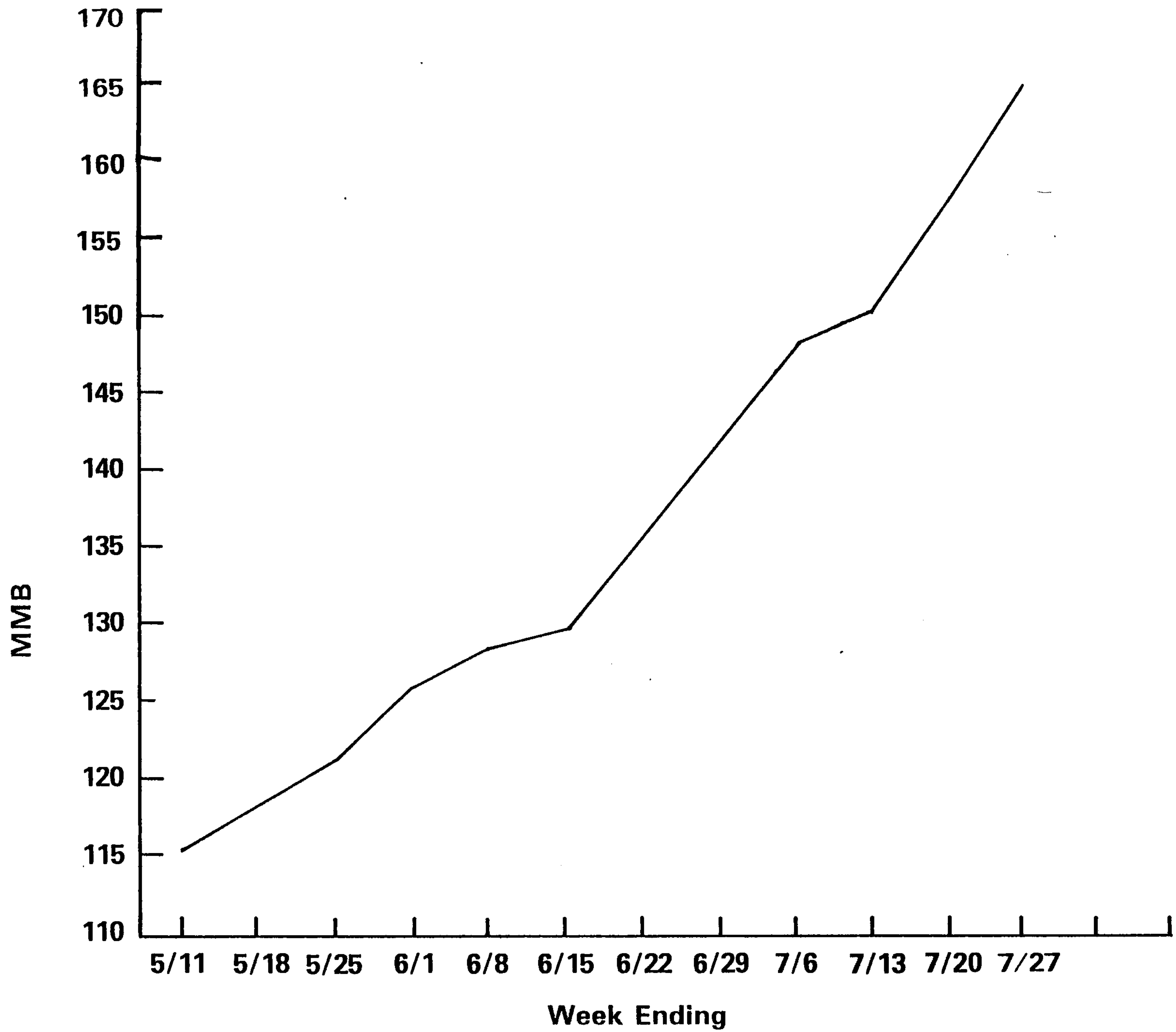
Distillate Stocks at Primary Levels



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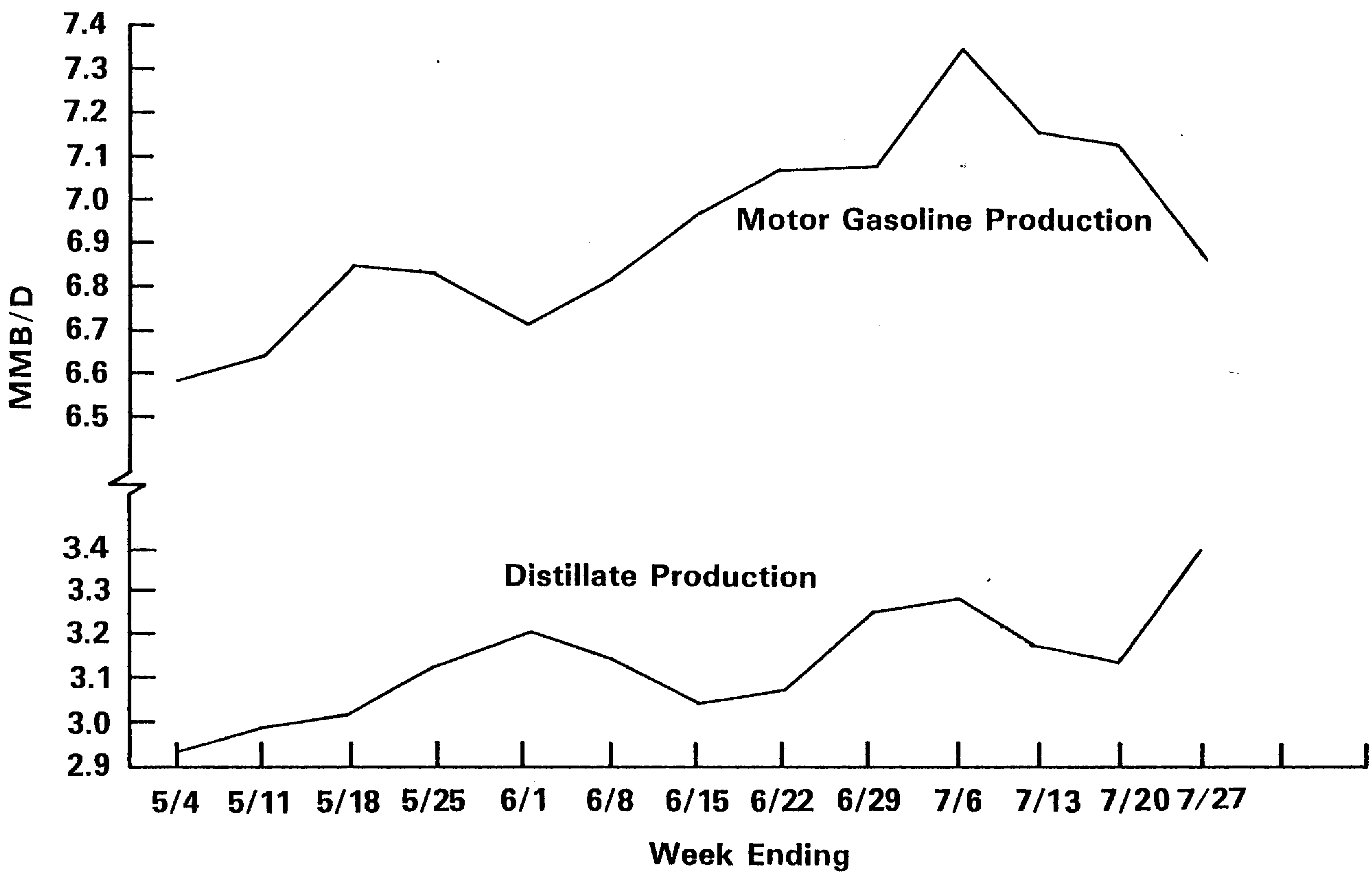
U.S. Refinery Output



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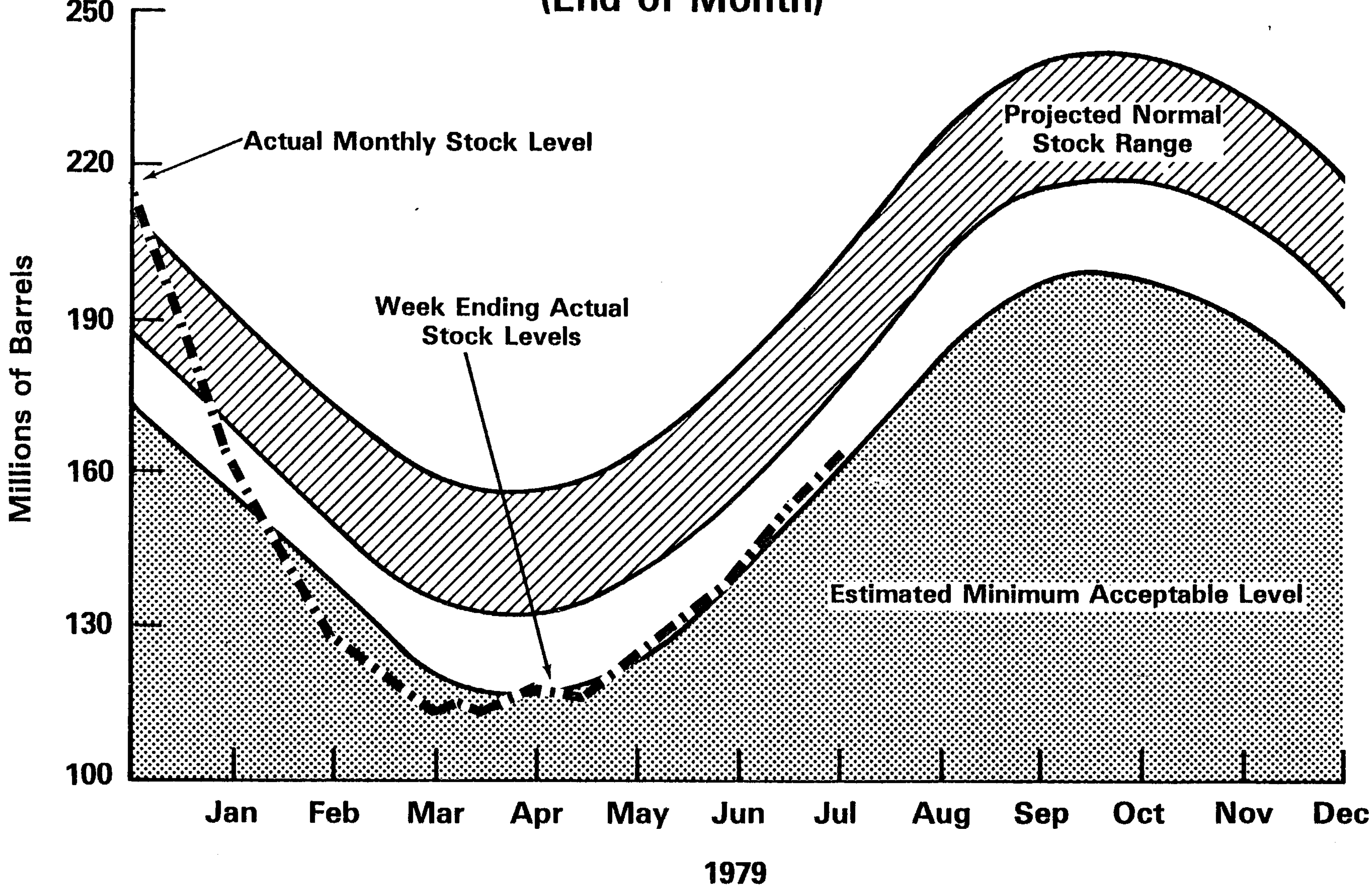
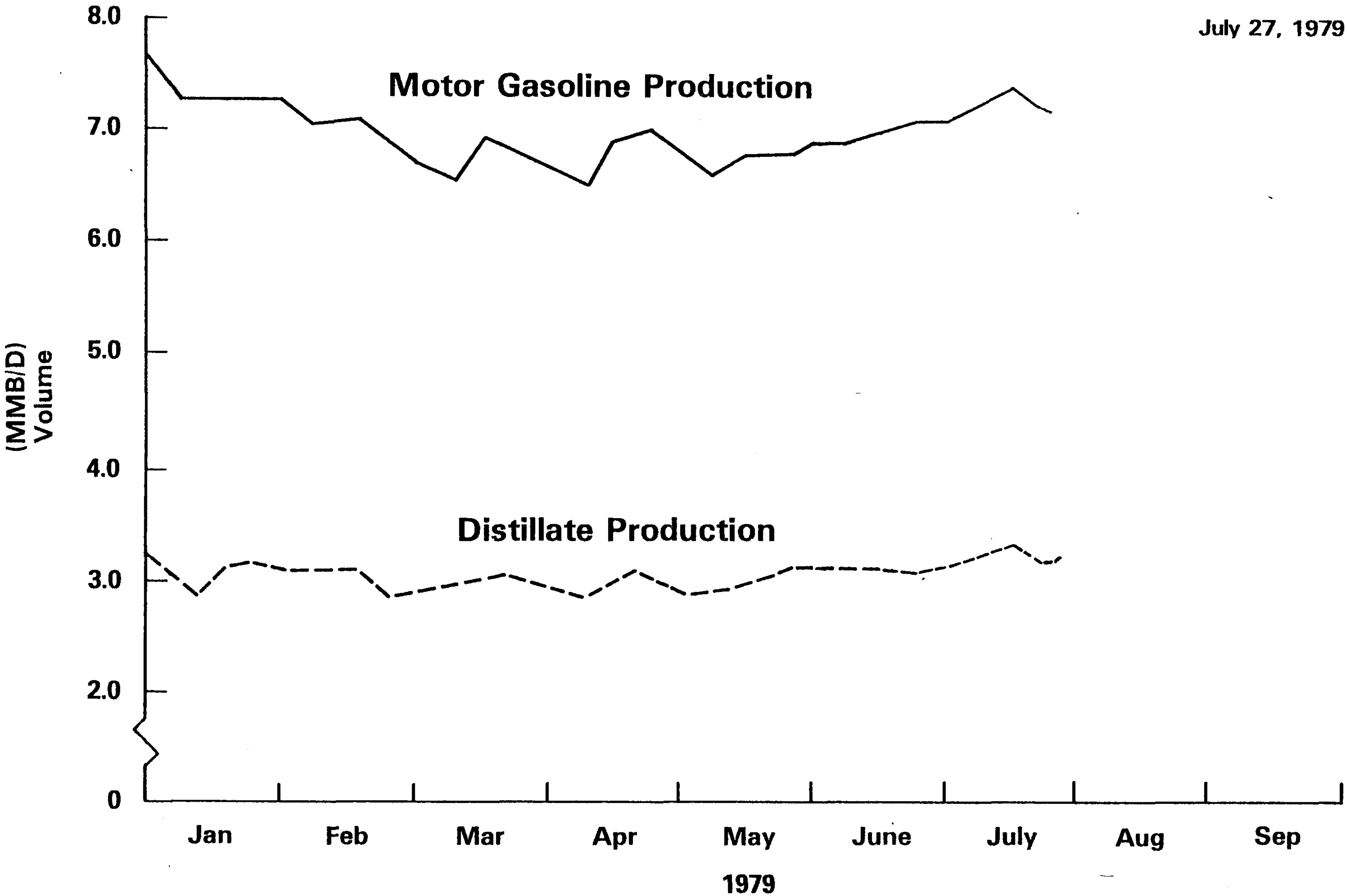
Distillate Stocks at Primary Level

(End of Month)



U.S. Refinery Output

July 27, 1979



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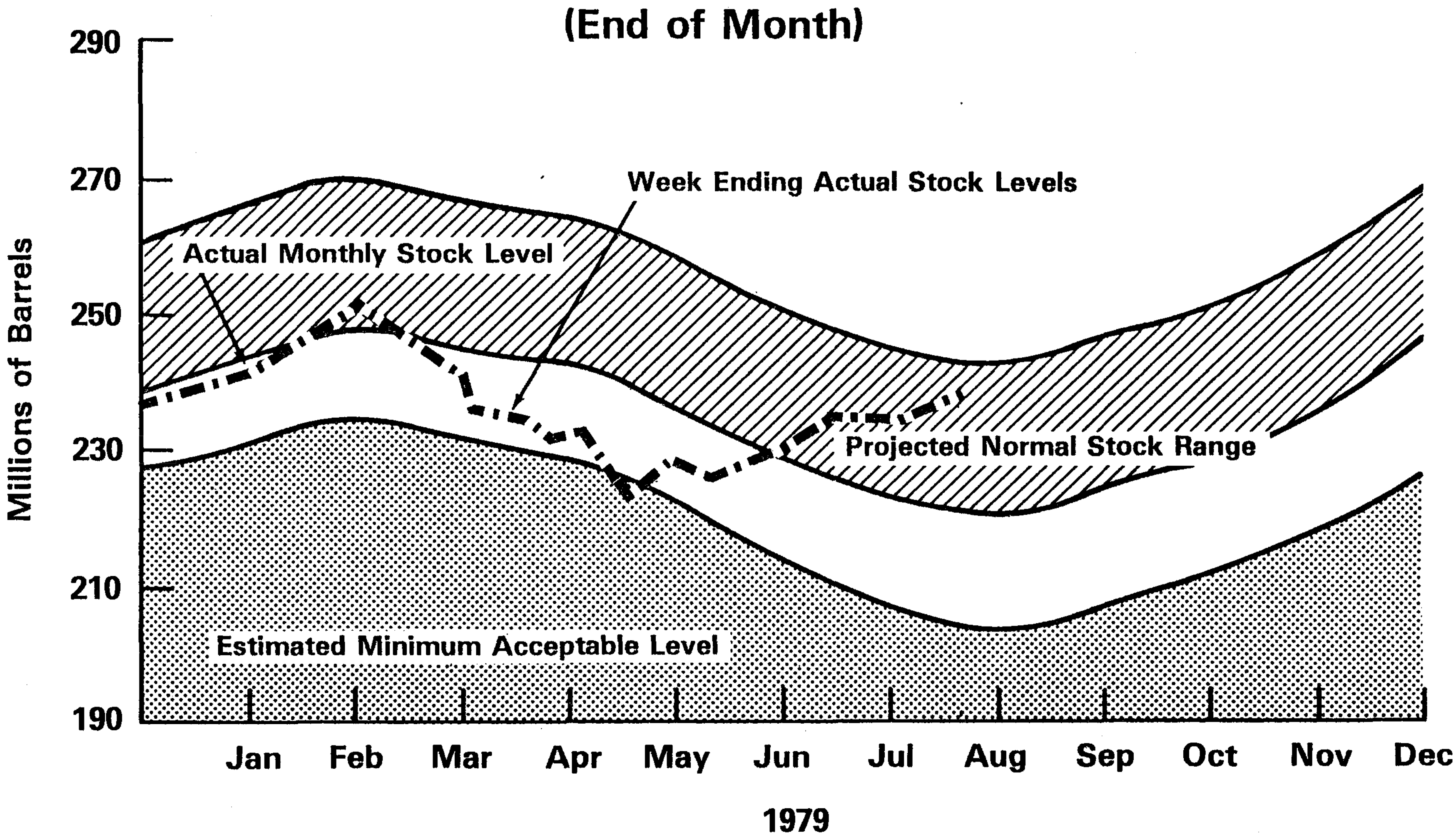

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Crude Oil Runs To Distillation Units
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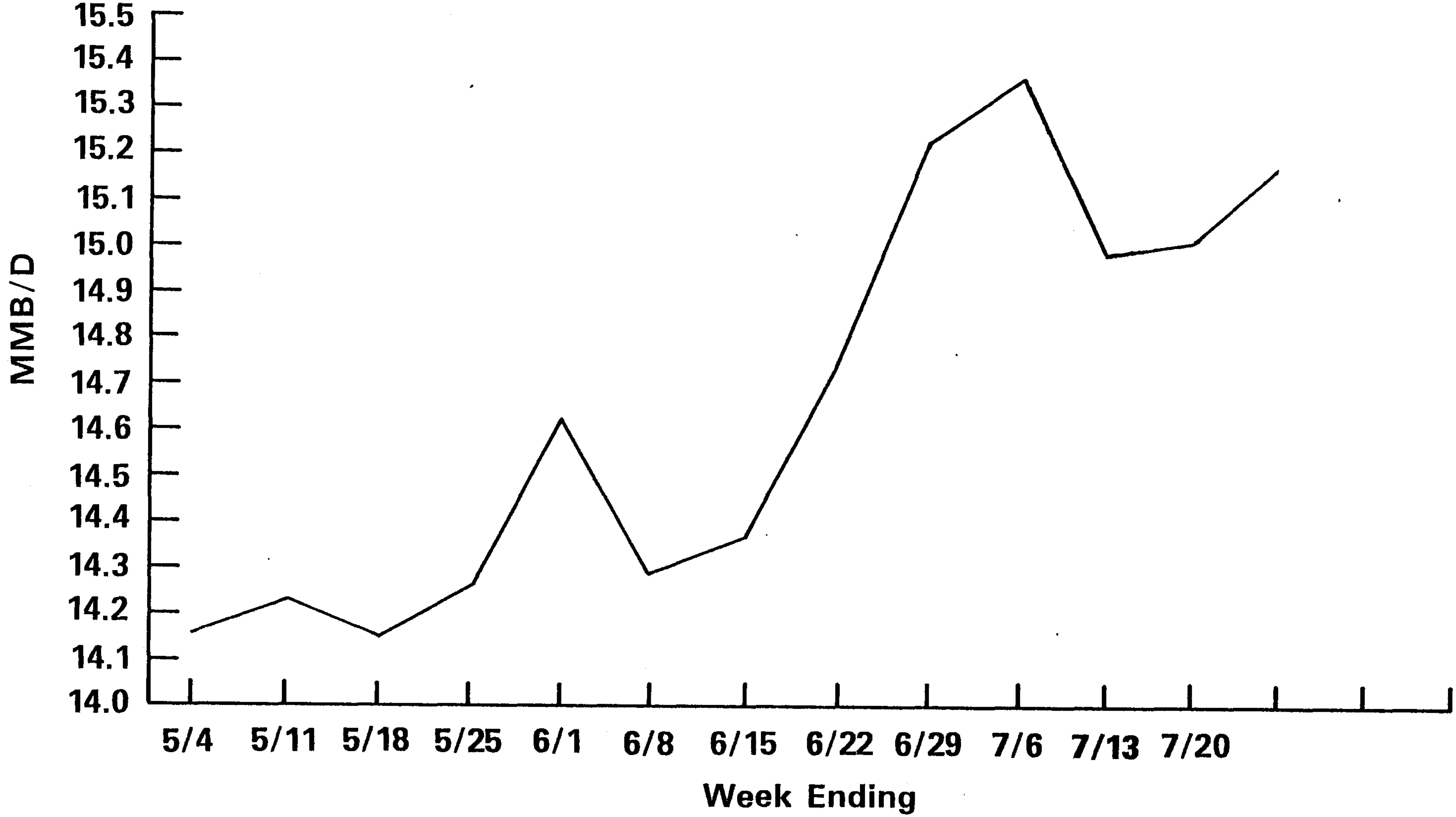
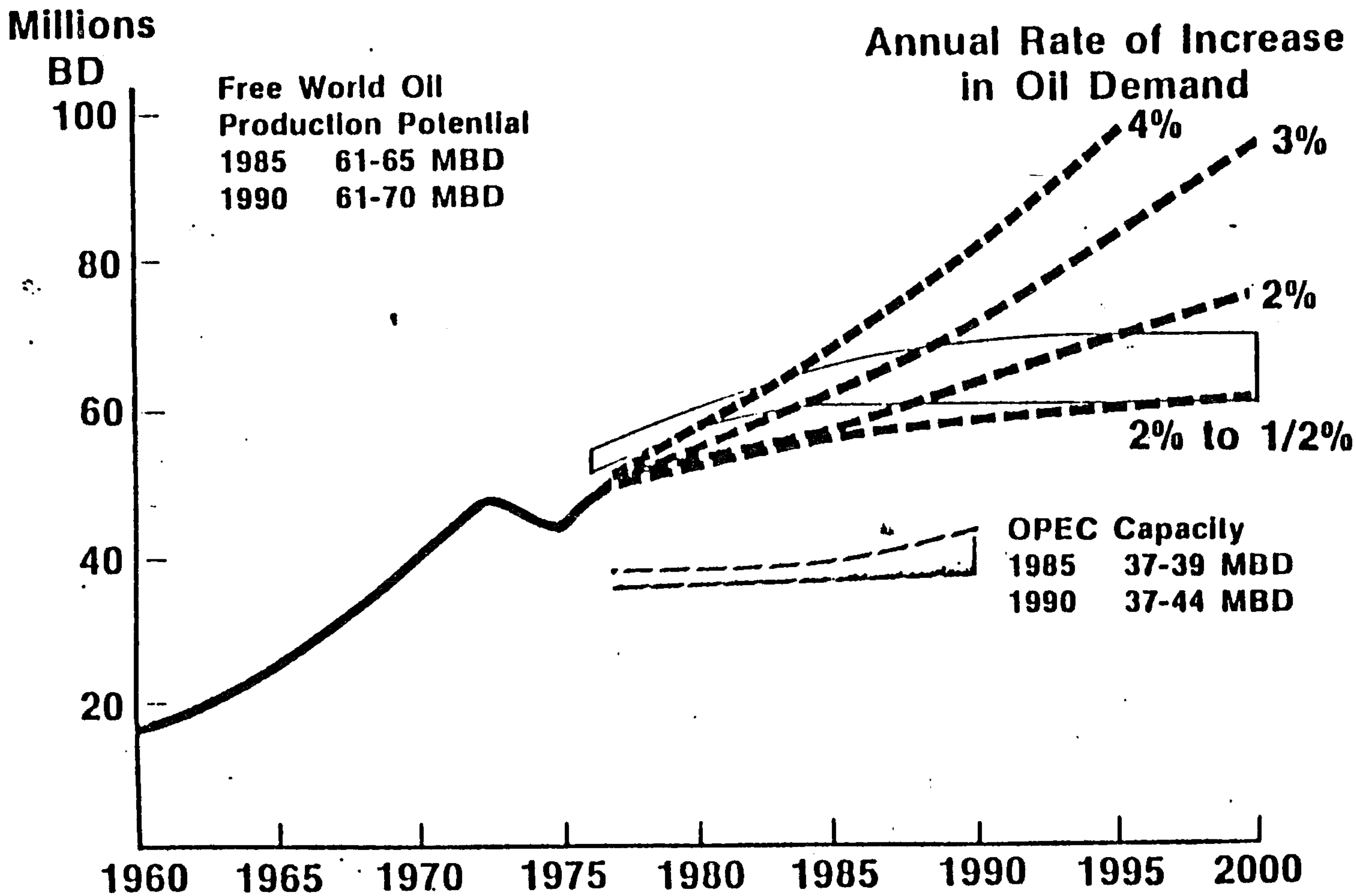
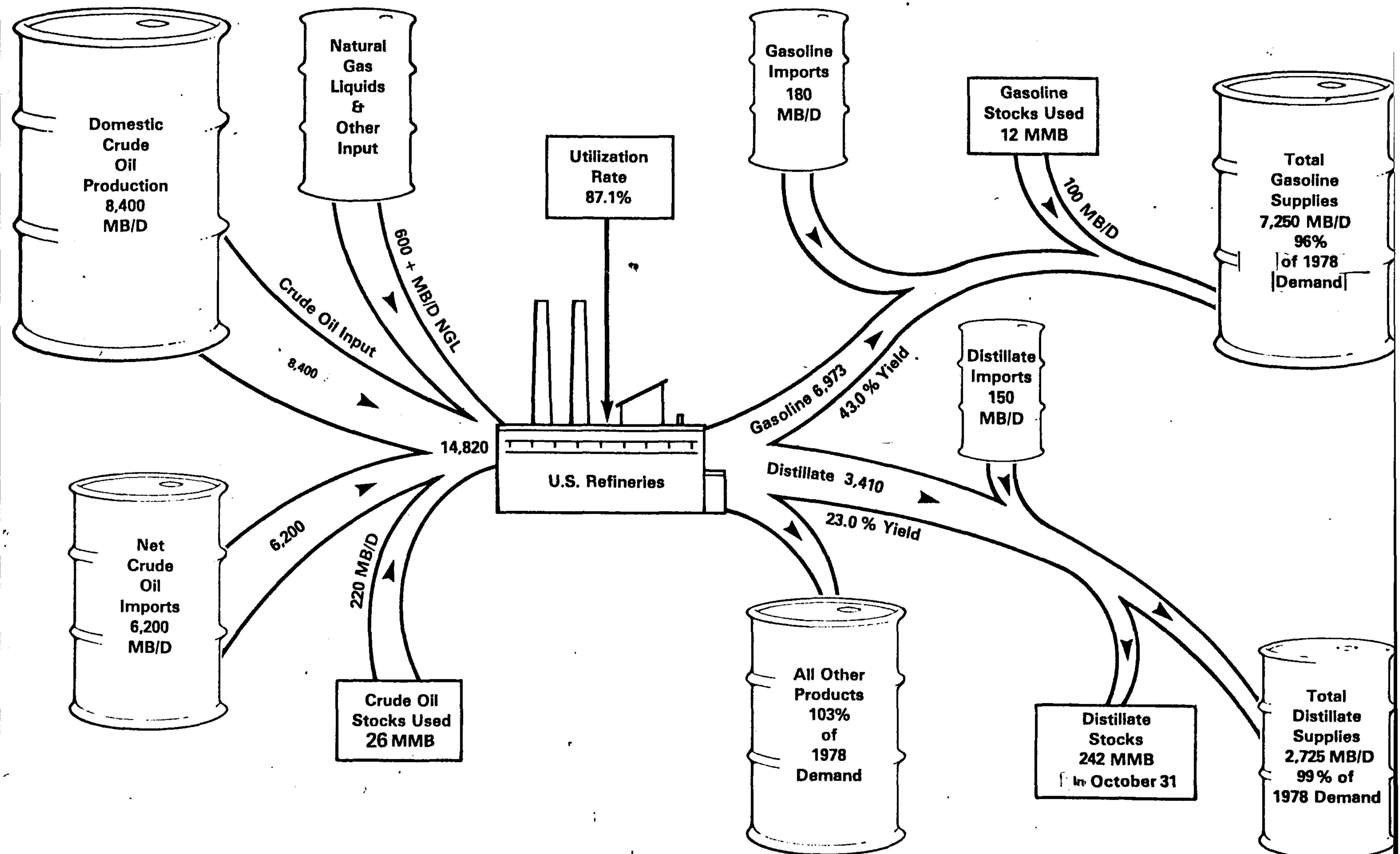


Free World Oil Demand and Production Potential



Case I Assumptions of Petroleum Supplies for July- October 1979



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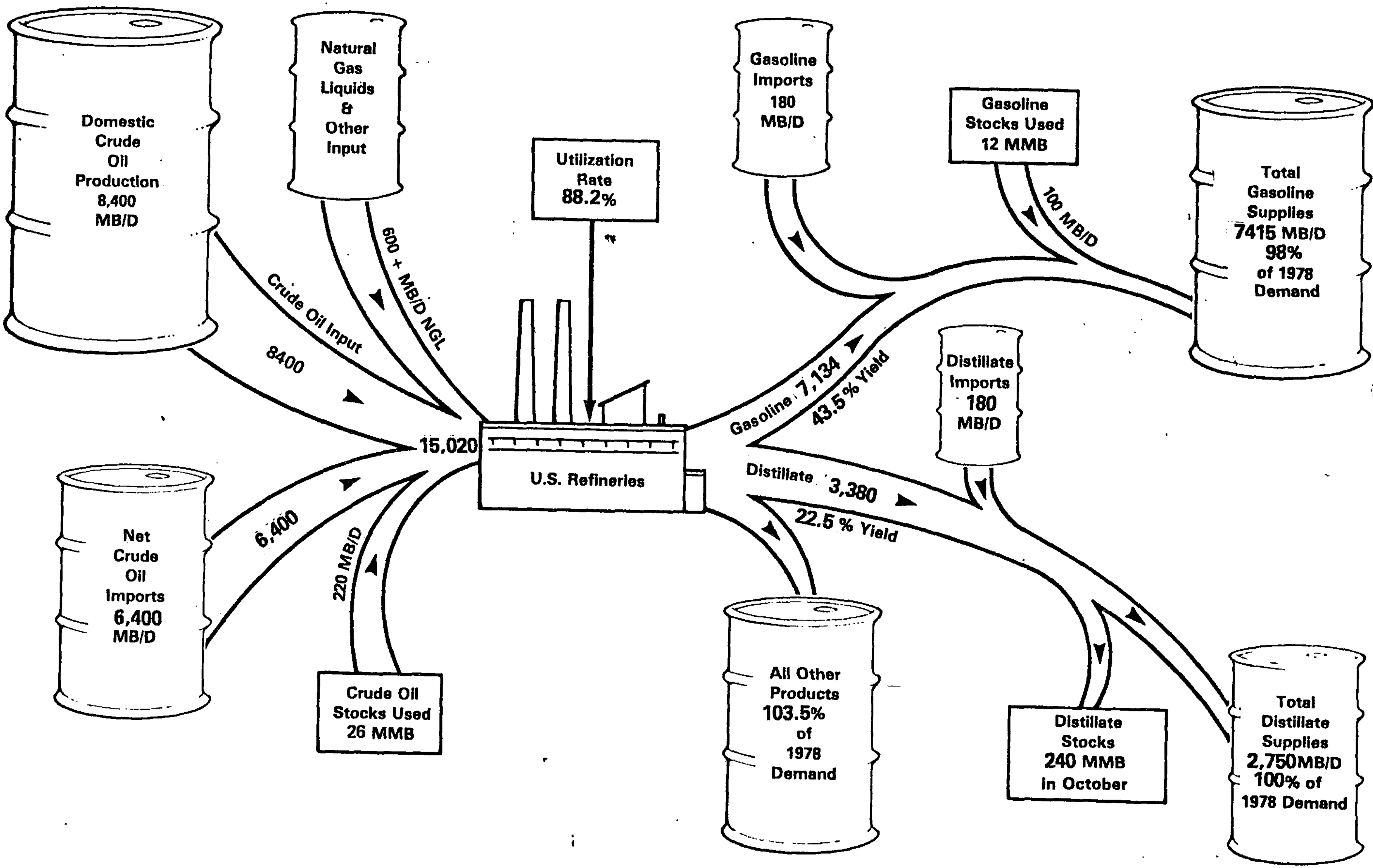

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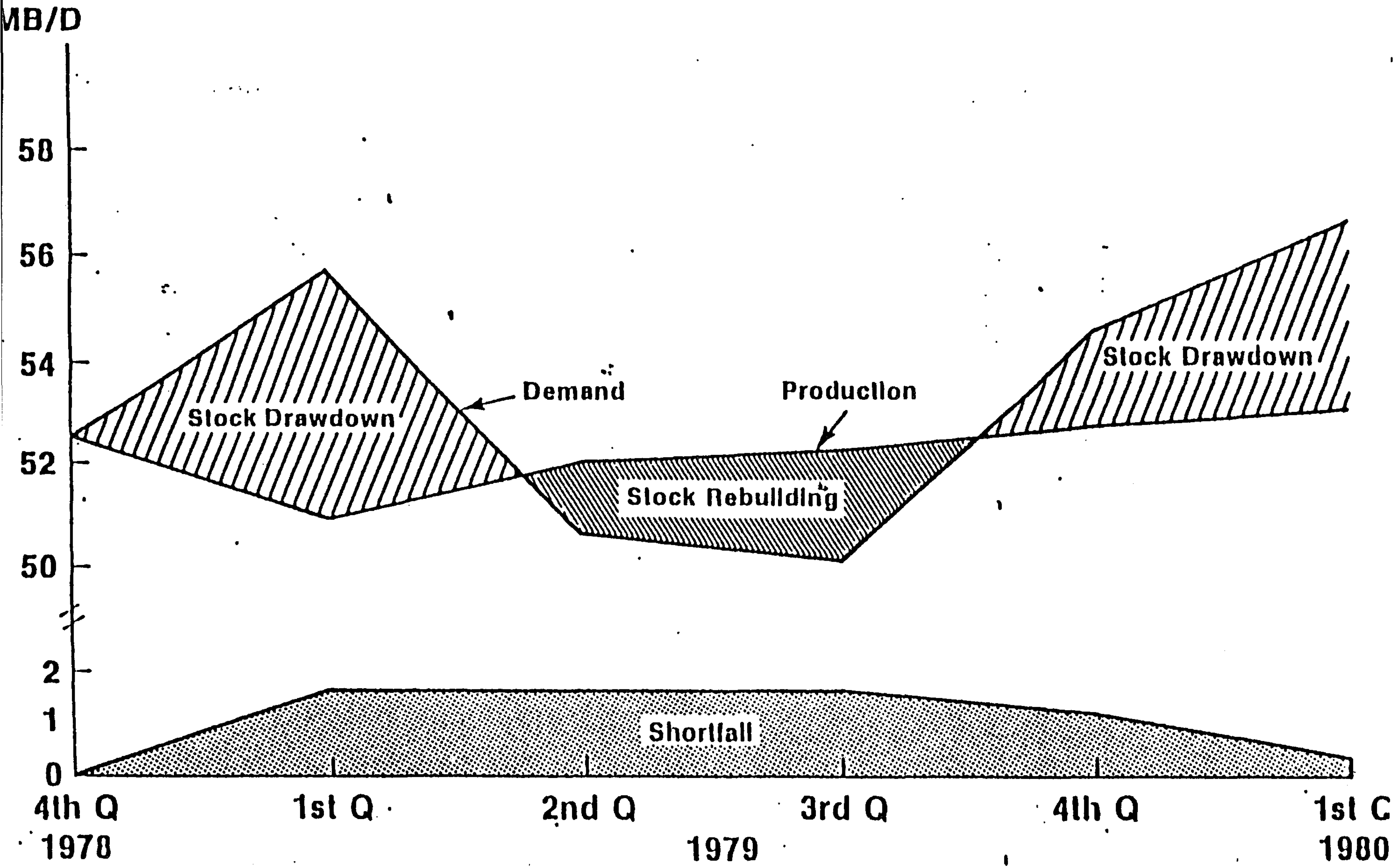
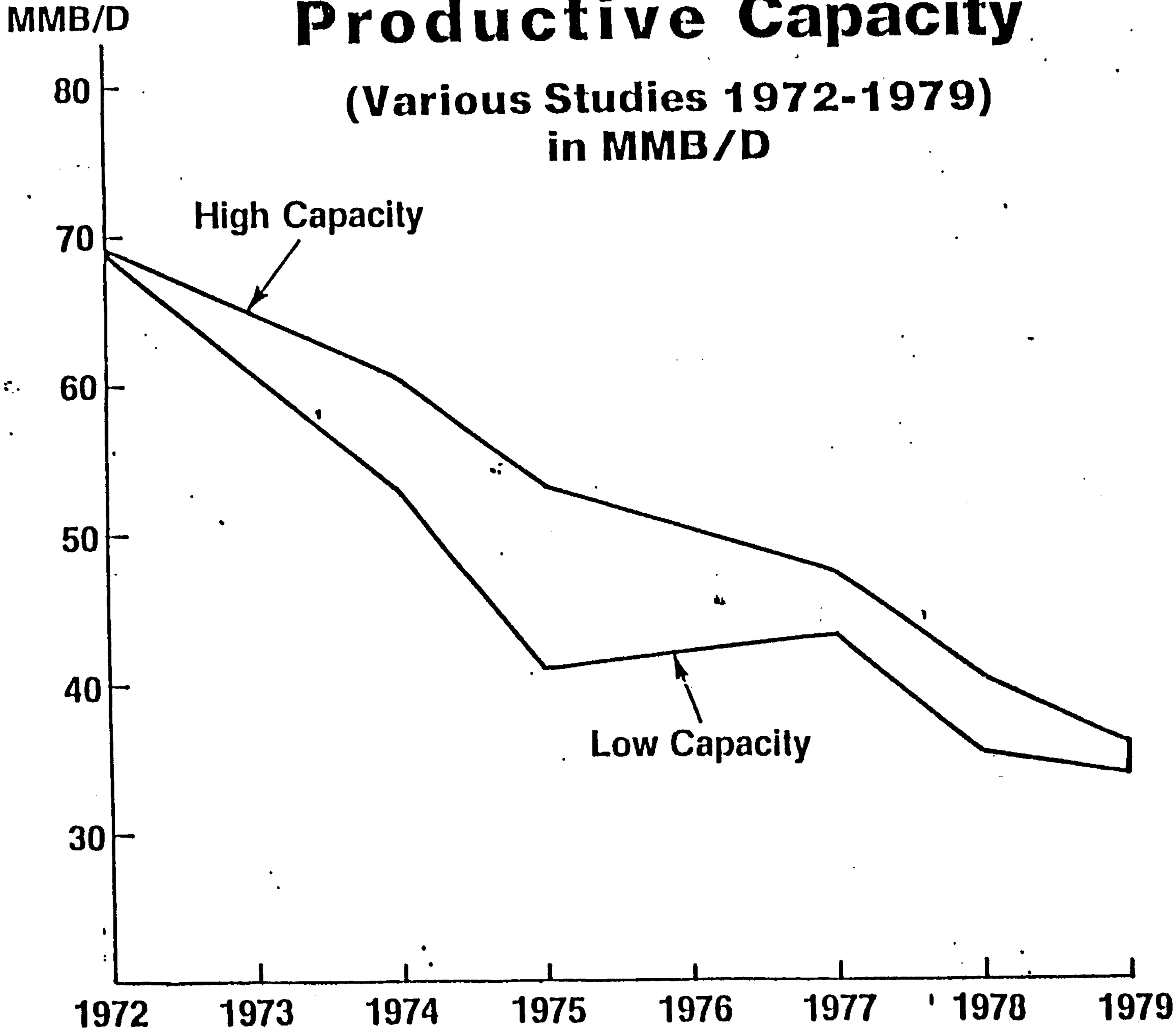
Free World Oil
Supply and Demand

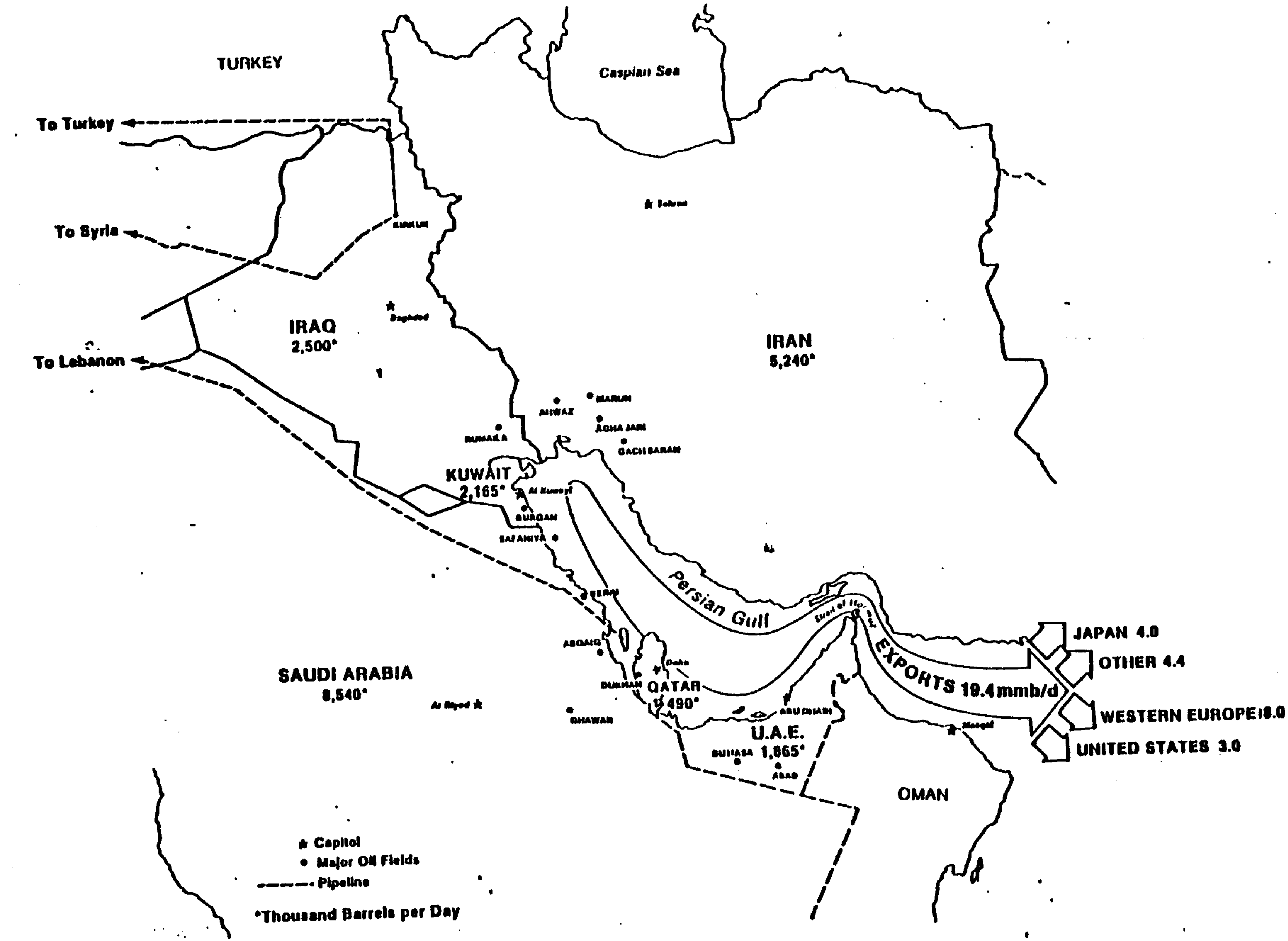


1985 Projections of OPEC Productive Capacity

(Various Studies 1972-1979) in MMB/D

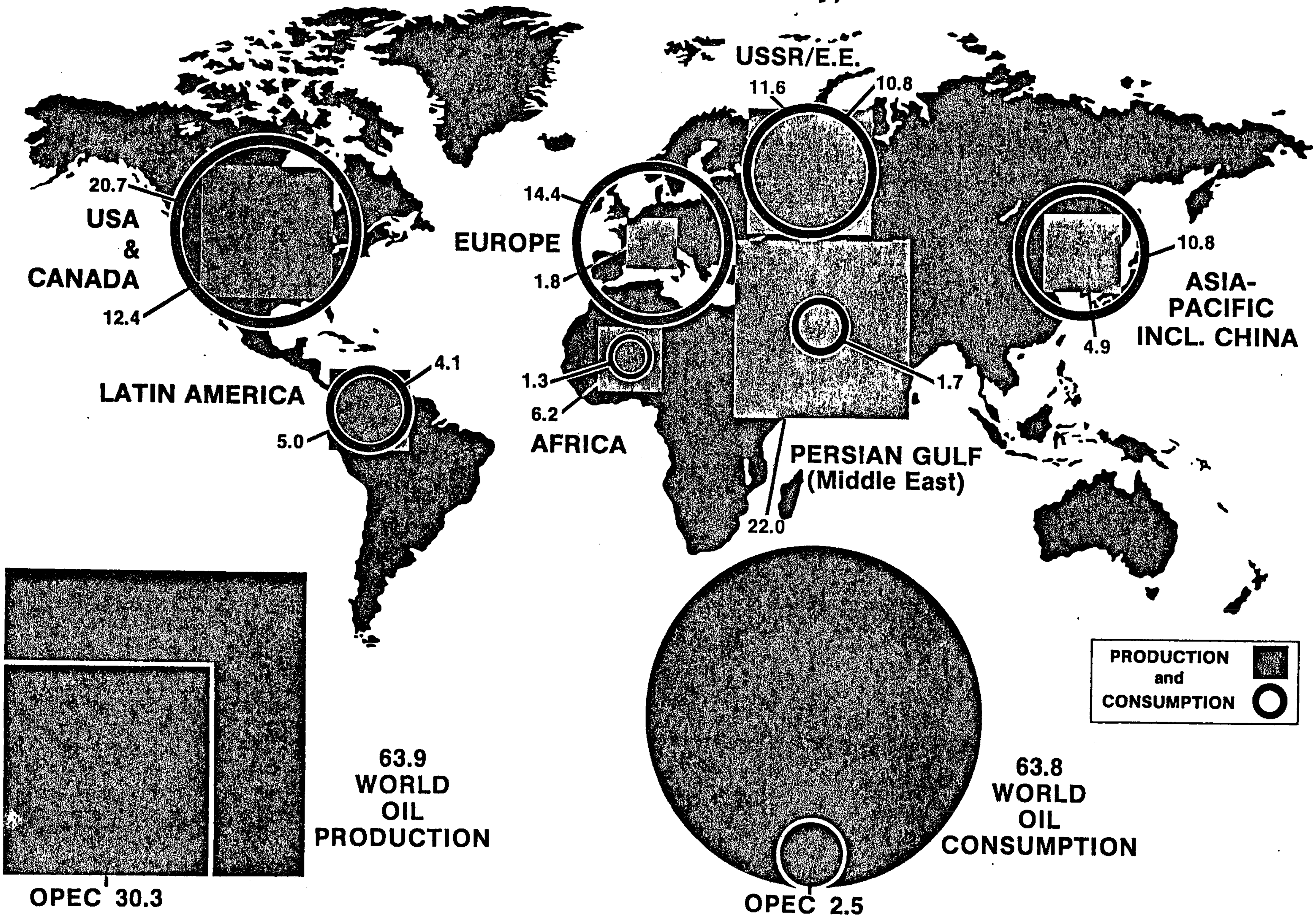


Persian Gulf Crude Oil Production and Exports 1978



WORLD PETROLEUM

Production and Consumption: 1978
(Million Barrels Per Day)



Department of Energy

Program to Assure
Adequate Distillate Supplies
For Next Winter

Heating oil stocks will be built to safe levels for this winter. Based on current projections of oil imports, safe stock levels can be built while still providing consumers with adequate supplies of diesel fuel, gasoline and other products during the remainder of this summer and fall, assuming continued efforts to restrain petroleum use.

There is no need for individuals or firms to engage in panic buying of heating oil or abnormal "tank topping" to assure adequate supplies for next winter. Supply problems can be minimized by maintaining an orderly market, and continued responsible actions to avoid unnecessary petroleum use.

The Need to Build Distillate Stocks

U.S. demand for distillate is high in winter because of heating needs and lower in summer. The U.S. refining industry cannot produce enough distillate during the heating season to meet peak winter demand. Consequently, industry must build stocks during the lower summer demand period which can be drawn down to augment production and imports during the heating season.

DOE has a target of achieving 240 million barrels (MMB) of distillate in primary stock by the end of October. These are stocks held by refiners, pipeline companies and bulk terminal operators. This target was selected in order to:

- provide protection against a colder than normal winter; and

- protect against potentially low stocks held by distributors and end users.

In setting the desired stock level, DOE considered a range of potential distillate demand during the heating months of October 1979 through March 1980. For planning purposes, it was assumed that distillate demand during the six months could average about 4.15 million barrels per day (MMB/D), compared with 4.11 in 1976-77, 4.00 in 1977-78 and 3.99

in 1978-79. The estimate of 4.15 MMB/D assumed that the winter might be as severe as in 1976-77, which was about 20% colder than normal. It also assumed that, if necessary, conservation efforts next winter and savings from switching to natural gas could largely offset the growth in distillate demand (primarily for diesel fuel) which has been occurring in recent years.

DOE also concluded that it was necessary to assure that distillate stocks at the primary level will be adequate even if stocks held by fuel oil distributors and end users are lower than normal. DOE is now developing information on the level of normal and current stocks held by distributors and users. Better information on these secondary and user stocks is to be available by mid-September, but the information can never be complete. It is therefore prudent to assume that they may be somewhat below normal.

With distillate stocks at 240 MMB this fall and assuming supplies for refiners continue at 15 MMB/D or higher next winter, adequate supplies (averaging 4.15 MMB/D) could be provided through the winter, even if distributor and end user stocks were 20 MMB lower than normal at the start of the heating season.

In the event there is another interruption of crude oil imports this winter similar to the Iranian interruption of last winter, refiners could increase distillate production enough to provide adequate heating oil supplies if primary distillate stocks are at 240 MMB this fall. This would require refiners to produce distillate at a yield of up to 25% for much of the winter. If the winter is less severe, a lower yield would suffice.

If the weather is normal or if crude runs are higher next winter, a 240 MMB stock level will permit refiners to build up gasoline stocks for next summer, and help avoid gasoline shortages in 1980. If the winter is very cold or if crude oil imports are reduced, refiners are not likely to be able to rebuild gasoline stocks this winter.

In addition to the need for adequate distillate stocks at the primary level, DOE will be acting to help assure that essential stocks are built at the secondary and end user levels. It is necessary to assure that heating oil stocks are moved into certain areas of the country before rivers

and lakes freeze, if those areas are dependent on movement of heating oil by water.

DOE also will try to assure that total heating oil stocks held by distributors, dealers and users are close to normal levels this fall (the 240 MMB in primary stocks can protect against at least a 20 MMB shortfall in secondary and user stocks). Because of the lack of verified data on the amount of stocks held by distributors and users, it will be necessary to rely heavily on informal estimates, partial surveys and identification of specific problems by State and local officials.

Outlook For Achieving The Stock Targets

It is expected that crude oil imports will be adequate to permit crude input to refineries of 15 MMB/D or higher through October. With crude oil runs at this level, refiners should be able to achieve the 240 MMB primary stock target, rebuild secondary and user stocks, and maintain distillate supplies for current consumption at the 1978 level, while still maintaining gasoline supplies at 96% to 98% of the 1978 level, as shown in Table 1. If imports are unexpectedly interrupted again, the desired distillate production still could be achieved by increasing the percentage yield of distillate from available crude oil. This would reduce gasoline supplies somewhat, as shown in Table 2. The primary uncertainty is whether refiners will shift refinery yields enough voluntarily to build stocks to acceptable levels, or whether it will be necessary to direct refiners to increase distillate production.

Table 1 assumes crude runs of 15 MMB/D (8.4 domestic and 6.6 of net crude oil imports, or 6.4 imports and .2 crude oil stock use). It assumes a combined gasoline and distillate yield of 66% during September and October. It assumes distillate imports of 200,000 B/D, and gasoline imports of 200,000 B/D. Based on current projections of crude oil imports, it is expected that crude oil runs to refineries will average 15 MMB/D or higher during this four-month period. If crude runs are higher than 15 MMB/D, the distillate stocks could be built faster than shown without reducing gasoline supplies. Alternatively, distillate stocks could be higher by the end of September by increasing the distillate yield in August and September.

Table 1

15.0 MMB/D Crude Runs	June 1/ Est.	July 2/	Aug.	Sept.	Oct.
Distillate					
Refinery Yield (%)	21.4	21.3	22.0	24.0	23.0
Refinery Output and Imports (MB/D)	3328	3457	3500	3800	3650
Current Deliveries (MB/D)	2734	2650	2780	2655	3070
Daily stock build up (MB/D)	595	807	720	1145	580
End of month stock level (MMB)	142	167	189 3/	223 3/	240
Gasoline					
Refinery Yield (%)	43.6	43.3	43.0	42.0	43.0
Refinery output & imports (MB/D)	7214	7325	7250	7100	7250
Stock drawdown (MB/D)	-77	-180	300	200	100
Demand in 1978 (MB/D)	7917	7579	7872	7406	7461
Percent of 1978 demand	90.0%	94.3%	96.0%	98.5%	98.5%

1/ Crude runs in June averaged 14.7 MMB/D.

2/ The estimates for July are based on preliminary data through July 27; actual data for July were not complete at the time of this analysis.

3/ Based on the stock build up plans of the major refiners, stocks may exceed these levels at the end of August and September.

Table 2 shows how the distillate stock and supply targets could be met in the event of another interruption of crude oil imports that reduces crude oil runs to 14.6 MMB/D (8.4 domestic and 6.2 of net crude oil imports, with no crude oil stock use). It assumes 150,000 B/D of distillate imports and 180,000 B/D of gasoline imports. It assumes a combined distillate and gasoline yield of 65% of crude runs in August through October, which is 2% lower than refiners averaged last fall.

Table 2

14.6 MMB/D Crude Runs	June Est.	July	Aug.	Sept.	Oct.
Distillate					
Refinery Yield (%)	21.4	21.3	22.0	24.8	24.8
Daily stock build up (MB/D)	595	807	583	1118	703
End of month stock level (MMB)	142	167	185	219	240
Gasoline					
Refinery yield (%)	43.6	43.3	43.0	40.2	40.2
Refinery output & imports (MB/D)	7214	7325	7058	6649	6649
Stock drawdown (MB/D)	-77	-180	350	200	50
Demand in 1978 (MB/D)	7917	7579	7872	7406	7461
Percent of 1978 demand	90.1%	94.3%	94.1%	92.5%	90.0%

Both cases assume gasoline stocks are drawn down by a total of 18 MMB in August-October, and that distillate demand is the same as in 1978 during the three months.

Table 1 can serve as a general guide in determining whether levels of distillate yields and stocks are acceptable, depending on the levels of crude oil runs, distillate imports and demand. With higher refinery runs, there is more flexibility to catch up in September and October if stocks are slightly lower in July and August.

Actions to Assure Stocks are Built to Acceptable Levels

DOE is taking the following actions to assure that distillate stocks are built to acceptable levels.

1. DOE is taking steps to reduce distillate use. These actions include:

   - Removing regulatory impediments to switching from distillate to natural gas, and encouraging and assisting major distillate users to switch. DOE has established a team to identify and assist firms to switch to natural gas. DOE estimates distillate savings of up to 100,000 B/D from this effort this summer and 65,000 B/D next winter.

   - Encouraging electricity transfers, to use electricity generated from coal or hydroplants to substitute for oil fired plants. Distillate savings may be small, particularly in view of nuclear plant shutdowns.

   - Implementing a national mandatory building temperature control plan for all public, industrial and commercial buildings. It is estimated that this plan could reduce distillate use by at least 130,000 B/D next winter.

   It is expected that these actions can hold distillate demand to about the 1978 level this summer.

2. DOE has adopted a rule to encourage imports of distillate oil from Caribbean refineries. It provides a $5 per barrel entitlement benefit for distillate imports to help attract Caribbean-produced distillate to the United States rather than Europe.

3. DOE has worked with the largest refiners to set targets to build up distillate stocks voluntarily. On the basis of the information provided by 32 of the largest refiners, it is estimated that this voluntary effort could result in stocks of about 230 MMB by early October.

4. DOE is preparing the necessary rules to require all or some refiners to increase distillate production. DOE will be prepared to order an increase in distillate production, if this becomes necessary.

DOE also will be monitoring distillate production and stocks of the largest refiners on a weekly basis and will be prepared to issue individual orders if some refiners have an inordinately low distillate production compared with prior practices.

It is recognized that orders to increase distillate production may aggravate the gasoline supply situation. Distillate production orders also could adversely impact the output of other essential products and reduce refinery efficiency. Refinery production orders should be issued only if clearly necessary.

5. DOE will be monitoring the sales of distillate this summer to distributors and end users, as well as conducting surveys of distillate stocks held by distributors, dealers and major industrial users. If it is found that stocks at the secondary and user levels are lower than can be offset by the primary stocks, or if there are not firm plans to move stocks into areas that rely on waterborne supplies before freeze up, DOE will request suppliers to resolve the problems expeditiously. If necessary, DOE would use its regulatory authority to require allocation of supplies for building home heating stocks to acceptable levels at distributors or end users. Problems of inadequate heating oil stocks at the secondary and end user levels can be resolved in September and October prior to the start of severe weather, at a time when much of these secondary and user stocks normally are put in place.

Additional regulatory authorities are available and could be used if necessary to increase distillate supplies and reduce nonessential uses, but DOE believes they will not be necessary.

EMBARGOED FOR RELEASE
ON DELIVERY OF THE PRESIDENT'S SPEECH

PRELIMINARY FEDERAL
RESERVE PRESS RELEASE
March 14, 1980

(Final Federal Reserve Press Release will be released between 5:00 and 6:00 P. M. March 14, 1980)

The Federal Reserve Board today announced a series of monetary and credit actions as part of a general government program to help curb inflationary pressures. The actions are:

1. A voluntary Special Credit Restraint Program that will apply to all domestic commercial banks, bank holding companies, business credit extended by finance companies, and credit extended to U.S. residents by the U.S. agencies and branches of foreign banks. The parents and affiliates of those foreign banks are asked to cooperate in their lending in the U.S.

2. A program of restraint on certain types of consumer credit, including credit cards, check credit overdraft plans, unsecured personal loans and secured credit where the proceeds are not used to finance the collateral. The Board has established a special deposit requirement of 15 percent for lenders on increases in covered types of credit. Automobile credit, credit specifically used to finance the purchase of household goods such as furniture and appliances, home improvement loans and mortgage credit are not covered by the program.

3. An increase from 8 percent to 10 percent in the marginal reserve requirement on the managed liabilities of large banks that was first imposed last October 6, and a reduction in the base upon which the reserve requirement is calculated.

4. Restraint on the amount of credit raised by large non-member banks by establishing a special deposit requirement of 10 percent on increases in their managed liabilities.

5. Restraint on the rapid expansion of money market mutual funds by establishing a special deposit requirement of 15 percent on increases in their total assets above the level of March 14.

In making the announcement, the Board said:

"President Carter has announced a broad program of fiscal, energy, credit and other measures designed to moderate and reduce inflationary forces in a manner that can also lay the groundwork for a return to stable economic growth.

"Consistent with that objective and with the continuing intent of the Federal Reserve to restrain growth in money and credit during 1980, the Federal Reserve has at the same time taken certain further actions to reinforce the effectiveness of the measures announced in October of 1979. These actions include an increase in the marginal reserve requirements on managed liabilities established on October 6.

"The President has also provided the Federal Reserve, under the terms of the Credit Control Act of 1969, with authority to exercise particular restraint on the growth of certain types of consumer credit extended by banks and others. That restraint will be achieved through the imposition of a requirement for special deposits equivalent to 15 percent of any expansion of credit provided by credit cards, other forms of unsecured revolving credit, and personal loans.

"One consequence of strong demands for money and credit generated in part by inflationary forces and expectations has been to bring heavy pressure on credit and financial markets generally, with varying impacts on particular sectors of the economy. At the same time, restraint on growth in money and credit must be a fundamental part of the process of restoring stability. That restraint is, and will continue to be, based primarily on control of bank reserves and other traditional instruments of monetary policy. However, the Federal Reserve Board also believes the effectiveness and speed with which appropriate restraint can be achieved without disruptive effects on credit markets will be facilitated by a more formal program of voluntary restraint by important financial intermediaries, developing further the general criteria set forth in earlier communications to member banks."

Special Credit Restraint Program

In adopting this program, the Board said increases in lending this year should generally be consistent with the announced growth ranges for money and credit reported to Congress on February 19. Although growth trends will vary among banks and regions of the country, growth in bank loans should not generally exceed the upper part of the range of 6-9 percent indicated for bank credit (that is, loans and investments). Banks whose past lending patterns suggest relatively slow growth should expect to confine their growth to the lower portion or even below the range for bank credit.

The Board said the commercial paper market and finance companies—both a growing source of business credit—will be monitored closely in the program. Since activity in the commercial paper market is normally covered by bank credit lines, banks are expected to avoid increases in commitments for credit lines to support such borrowing out of keeping with normal business needs. Thrift institutions and credit unions will not be covered by the program in light of the reduced trend in their asset growth.

No numerical guidelines for particular types of credit are planned but banks are encouraged particularly:

— To restrain unsecured lending to consumers, including credit cards and other revolving credits. Credit for automobiles, home mortgage and home improvement loans should be treated normally in the light of general market conditions.

— To discourage financing of corporate takeovers or mergers and the retirement of corporate stock, except in those limited instances in which there is a clear justification in terms of production or economic efficiency commensurate with the size of the loan.

— To avoid financing for purely speculative holdings of commodities or precious metals or extraordinary inventory accumulation.

— To maintain availability of funds to small business, farmers, home-buyers and others without access to other forms of financing.

— To restrain the growth in commitments for back-up lines in support of commercial paper.

No specific guidelines will be issued on the terms and pricing of bank loans. However, rates should not be calculated in a manner that reflects the cost of relatively small amounts of marginal funds subject to the marginal reserve requirement on managed liabilities. The Board also expects that banks, as appropriate and possible, will adjust lending rates and other terms to take account of the special needs of small business and others.

Lenders covered by the program are asked to supply certain data and information. The President, in activating the Credit Control Act, has provided the authority to require such reports.

Monthly reports are requested from domestic banks with assets in excess of $1 billion and for branches and agencies of foreign banks that have worldwide assets in excess of $1 billion. Monthly reports are also requested on the business credit activities of domestic affiliates of bank holding companies with total assets in excess of $5 billion. Banks with assets between $300 million and $1 billion are asked to report quarterly. Smaller institutions need not report unless subsequent developments warrant it.

Foreign banks will be asked to respect the substance and spirit of the guidelines in their loans to U.S. borrowers or loans designed to support U.S. activity.

A panel of large corporations will be asked to report monthly on their commercial paper issues and their borrowings abroad. Finance companies with more than $1 billion in business loans outstanding will also be asked to report monthly on their business credit outstanding.

Consumer Credit Restraint

The special deposit requirement of 15 percent on increases in some types of consumer credit is designed to encourage particular restraint on such credit extensions. Methods used by banks to achieve such restraint are a matter for individual bank determination. Increases in covered credit above a base date will be subject to the special deposit requirement.

Among lenders subject to the regulation are commercial banks, finance companies, credit unions, savings and loan associations, mutual savings banks, retail establishments, gasoline companies and travel and entertainment card companies--all with $2 million or more in covered credit.

Typical examples of credit that are covered are credit cards issued by financial institutions, retailers and oil companies; overdraft and special check-type credit plans; unsecured personal loans; loans for which the collateral is already owned by the borrower; open account and 30-day credit without regard to whether a finance charge is imposed; credit secured by financial assets when the collateral is not purchased with the proceeds of the loan.

Examples of consumer credit not covered are:

Secured credit where the security is purchased with the proceeds of the loan such as an automobile, mobile home, furniture or appliance; mortgage loans where the proceeds are used to purchase the home or for home improvements; insurance company policy loans; credit extended for utilities, health or educational services; credit extended under State or Federal government guaranteed loans programs; and savings passbook loans.

All creditors with $2 million or more of covered credit outstanding must file a base report directly with the Federal Reserve or through the Federal Home Loan Bank Board or the Federal Credit Union Administration.

Thereafter, these creditors must file a monthly report on the amount of covered consumer credit outstanding during the month, based on the daily average amount of covered credit if that data is available or the amount outstanding on other appropriate dates approved by the Federal Reserve.

Marginal Reserve Requirèment

On October 6, the Board established an 8 percent marginal reserve requirement on increases in managed liabilities that had been actively used to finance a rapid expansion in bank credit. The base for this reserve requirement was set at the larger of $100 million or the average amount of managed liabilities held by a member bank, Edge corporation or a family of U.S. agencies and branches of a foreign bank as of September 13-26. Any increase in managed liabilities above that base period was subject to the additional 8 percent reserve requirement.

Managed liabilities include large time deposits ($100,000 or more) with maturities of less than a year, Eurodollar borrowing, repurchase agreements against U.S. government and federal agency securities, and federal funds borrowed for a nonmember institution.

In today's action, the Board increased the reserve requirement to 10 percent and lowered the base by (a) 7 percent or (b) the decrease in a bank's gross loans to foreigners and gross balances due from foreign officers of other institutions between the base period and the week ending March 12, whichever is larger. In addition, the base will be reduced to the extent a bank's foreign loans continue to decline. The minimum base amount remains at $100 million.

Nonmember Banks

The Federal Reserve has extended the marginal reserve requirement on increases in managed liabilities to those nonmbmber banks with managed liabilities in excess of $100 million in a base period. The effect of this is to achieve parity of treatment between member and nonmember banks.

Money Market Mutual Funds

Money market mutual funds and similar creditors must maintain a special deposit with the Federal Reserve equal to 15 percent of the incerase in their total assets after March 14.

A covered fund must file a base report of its outstanding assets as of March 14. A fund that registers as an investment company with the Securities and Exchange Commission after a date to be specified must file a base report within two weeks after it begins operations, indicating a base of zero.

EMBARGOED FOR RELEASE ON DELIVERY
OF THE PRESIDENT'S SPEECH

MARCH 14, 1980

Office of the White House Press Secretary

THE WHITE HOUSE

ANTI-INFLATION PROGRAM

The President's anti-inflation program announced on March 14, 1980 involves five major parts:

(1) Increased Discipline in the Federal Budget
(2) Restraints on Credit
(3) Wage and Price Actions
(4) Greater Energy Conservation
(5) Economic Structural Changes to encourage productivity, savings, research and development.

Increased Discipline in the Federal Budget

In light of recent increases in the rate of inflation, the President has decided that it is necessary to balance the budget in FY 1981.

The FY 1981 balanced budget is achieved through:

--deferral, reduction or cancellation of most of the new or expanded programs originally proposed in FY '81 budget;
--a cut in expenditures for personnel, operations, and maintenance throughout the government;
--an immediate freeze in Federal civilan employment, and rigid maintenance of employment ceilings to ensure that there will be 20,000 fewer Federal employees by the end of 1980 than there are now;
--a reduction in ongoing spending programs throughout the Federal government;
--placing on an urgent basis the need to pass the savings and revenue measures submitted in the January budget, including hospital cost containment, Federal pay reform and cash management reforms;
--legislation to be sent to Congress authorizing withholding of interest and dividend payments in order to ensure that Federal income taxes owed on those interest and dividend payements are in fact paid;
--requiring the Defense Department, through efficiencies and savings that do not affect military readiness, to offset a large part of the cost increases the Department now faces;
--a commitment to veto any legislation that exceeds the spending limits consistent with a balanced budget;
--commitment to use the powers under the Budget Reform Act of 1974 available to the President to defer or rescind Federal spending;
--a willingness to seek from the Congress, if adequate steps are not being taken to achieve a balanced budget, a temporary grant of extraordinary powers.

Restraints on Credit

A. The President is using power granted him under the Credit Control Act of 1969 to authorize the Federal Reserve to impose new restraints on the growth of credit on a limited and targeted basis:
--Controls will be authorized for consumer loans other than those for homes, automobiles and other durable goods;
--Authority will be authorized to restrain credit extensions by commercial banks which are not members of the Federal Reserve System and by certain other money market lenders.

B. The Federal Reserve will announce a voluntary program, effective immediately, to restrain excessive growth in loans by large banks and other lenders.

C. Federal loans and loan guarantees will be cut by $4 billion in Fiscal 1981.

D. The President renewed his commitment to seek Congressional passage of a credit budget to enable the Federal government to control the loans and loan guarantees it provides more effectively.

MORE

Wage and Price Actions

A. Reaffirmed absolute opposition to wage and price controls.

B. Acceptance of pay standard recommendations of the Pay Advisory Committee -- standards which permit pay increases in the range of 7.5 to 9.5 per cent, with an average under normal conditions of 8.5 per cent; large firms with settlements over the 8.5 per cent midpoint will be asked to report to the Council on Wage and Price Stability (COWPS) with supporting information.

C. Continuation of the price standard established in final form by COWPS on November 1, 1979.

D. Lowering of the threshold for regular, formal reporting of price change information to COWPS from companies with $250 million or more in sales to those with $100 million or more in sales.

E. Selective prenotification of price increases by large firms, on a voluntary basis.

F. Increased COWPS staff to expand monitoring effort.

Greater Energy Conservation

A. Renewed appeal to the Congress to complete work on the Windfall Profits Tax, the Energy Security Corporation, and the Energy Mobilization Board and to take prompt action on the recently proposed coal conversion legislation.

B. Imposition of a gasoline conservation fee on imported oil of $4.62 a barrel, which will be applied solely to gasoline in an amount equal to about 10 cents a gallon.

C. Submission to Congress of a motor fuels tax designed to replace the gasoline conservation fee.

D. Establishment of new targets for nationwide gasoline consumption at a maximum of 7 million barrels per day, or a 5.5 per cent decrease from 1979 level.

E. Development of intensified national energy conservation plan by the Secretary of Energy.

Long-Term Economic Structural Changes

A. Renewed appeal to Congress to enact the Regulatory Reform Act and comprehensive legislation to deregulate the banking, trucking, railroad and communcations industries.

B. Renewed appeal to Congress to enact the Financial Institutions Reform Act, which will gradually lift the ceilings that limit the return most small savers can earn.

C. A request that the Presidential Commission for a National Agenda for the Eighties develop specific recommendations for revitalizing our economy's productivity.

D. Statement of intention to propose tax measures to spur productivity once the task of balancing the budget and assuring overall fiscal discipline is achieved.

More detail on the following items of the President's program is set forth below:

(1) Overview of the Inflation Situation
(2) Budgetary Actions/Hiring Limitation
(3) Pay and Price Standards
(4) Gasoline Conservation Fee
(5) Motor Fuels Tax
(6) State Gasoline Targets
(7) Withholding of Interest and Dividends

MORE

More detailed information on credit restraints will be set forth in a separate release provided by the Federal Reserve.

OVERVIEW OF THE INFLATION SITUATION

We have just come out of a decade of economic turmoil; a decade which saw

-- a tenfold increase in the price of oil,
-- a twenty-fold increase in the U.S. oil import bill,
-- the deepest recession in 40 years,
-- inflation which averaged eight per cent over the whole decade, and
-- a sharp slowdown in productivity growth.

Thus as we enter the 1980's, economic policy has to concentrate on three major priorities:

(1) reducing inflation,
(2) adjusting to a world of sharply higher energy prices and reducing our vulnerability to OPEC price and supply decisions,and
(3) improving the efficiency and productivity of our economy.

In recent weeks this first priority has become even more important. Citizens across the country have become worried that our economy is out of control. This worry affects their expectations about inflation and thus their behavior.

There are real causes for concern.

-- The early months of 1980 have seen another explosion in energy prices and the passthrough of increased energy costs in other goods, and a wholesale price index rising at an annual rate of 20 per cent;

-- Interest rates are skyrocketing, and

-- The bond market is in disarry.

Strong and decisive action is necessary to turn the tide around. We cannot let a continued worsening of inflationary expectations and an erosion of confidence undermine a basically sound economy.

What caused this worsening of inflationary expectations? A number of things:

Our economy has shown greater strength than expected. The widely-expected recession has not materialized.

-- Retail sales have remained strong as consumers continued to hold down their savings rate to spend;
-- Employment is still up and the unemployment rate is steady at roughly six per cent;
-- Restraint in financial markets has not bit deeply except in housing;
-- Strong markets have made it easier for businesses to raise prices.

Inflation has accelerated sharply.

-- In January and February the Producer's Price Index increased at an annual rate of about 20 per cent;
-- In January the CPI increased at the rate of 1.4 per cent (an annual rate of 18 per cent),
-- These dramatic increases come from another round of energy price increases (7.5 per cent in February alone), from the passthrough of energy price increases into the prices of goods made with and transported with energy, and from the passthrough of other costs swallowed last year.

Misinterpretation of the budget.

-- The increase in nominal expenditures for FY 1980 between January 1979 and January 1980 was a result of inflation -- but it was perceived by some as backing away from the commitment to fiscal restraint;

MORE

-- The $16 billion deficit in the 1981 budget was not widely recognized as being a result of the administration's forecast of a weak economy. (With a six per cent unemployment rate, the budget proposed in January would be in surplus.)

-- Concerns about a defense boom.

And, finally, concern about the growth of money supply and business loans.

BUDGETARY ACTIONS

Throughout his administration, the President has emphasized the need for fiscal restraint. Given the recent increases in our nation's rate of inflation, he has determined that a balanced budget in FY 1981 is imperative.

To implement this decision, the President will place before the Congress a package of substantial expenditure cuts in almost every major program area not vital to national security. These cuts are real, and have been allocated fairly. The President recognizes the sacrifice he will be asking people to make through these reductions. However, he has decided that balancing the budget now is a major step toward restoring confidence in our economy.

Budget Totals

When submitted in January, the FY 1981 budget had a projected deficit of about $16 billion. Since January, changes in the economic outlook and technical revisions have combined to raise both outlays and revenues for FY 1981, narrowing the FY 1981 deficit by a small amount (about $2.3 billion).

The President's proposed expenditure cuts will bring the budget to balance. Beyond that, the imposition of a measure to reduce gasoline consumption and oil imports, and the proposal to apply withholding to existing taxes on interest and dividends (a measure to reduce tax evasion) will together generate new revenues of about $14 billion, providing an overall surplus for the budget.

The budget estimates are as follows:

	1980	1981
I. OUTLAYS (in billions)		
January Budget	564	616
plus: revisions	6	9 to 10
less: budget cuts	-2	-13 to -14
equals: Revised Outlays	568 to 569	611 to 613
II. REVENUES (in billions)		
January Budget	524	600
plus: revisions	~~8~~ 3	11 to 12
Withholding on Interest and Dividends	0	~~2~~ 3
Contingency Allowance (Revenues from gasoline conservation fee)	(5)	~~(11)~~ 10
equals: Revised Revenues	529	613 to 614 614-615
(including contingency allowance)	(534) 532	(624 to 625)
III. DEFICIT (-) OR SURPLUS (+) (in billions)		
January budget	-40	-16
Revised estimate	-39-40	0 to ~~+2~~ +3
(Contingency Allowance)	(+5) 3	(+11) +10
Revised Estimate After Contingency	(-34 to -35) 36 37	(+11 to +13) 10 - 13

MORE

Proposed Spending Cuts

The President will propose reductions in virtually every area of the budget to eliminate the deficit in FY 1981. He will defer less essential spending. He will rescind budget authority in 1980. He will propose reductions in appropriations for the FY 1981 budget. He will seek legislative reforms lowering expenditures. The President intends to use fully the authorities he has at hand to achieve budget balance.

These recommendations are the product of an unprecedented joint effort with the Congress. The President's senior advisors and members of Congress have identified and reviewed the actions which are necessary to balance the 1981 budget. There is substantial agreement concerning specific reductions in major programs and in the general pattern of reductions in other areas.

Both the Administration and the Congress intend to work closely together to see these proposals enacted.

Reductions in New Initiatives

The President has decided to eliminate, reduce or postpone many of his new initiatives. Among those initiatives affected are:

	Outlay Reductions 1981 (in millions)
New EDA development financing program (DOC)	212
Solar and Conservation Bank (HUD)	76
Territorial Tax Matching (DOI)	22
The State Share of General Revenue Sharing (Treasury)	1,700
Welfare Reform Initiatives (DOL, HHS)	859
Mass Transit Capital Grants (July energy program)	265

The budgetary proposals will also include substantial cuts in numerous on-going programs virtually across the government. Selected examples are:

Operating and administrative expenses (all agencies)
Water and sewer grants and loans (USDA)
Agricultural Conservation Program (USDA)
Foreign Aid (AID, Treasury)
Coastal Energy Impact Fund (DOC)
Water project construction (Corps of Engineers, USDA)
Energy Impact Assistance (DOE)
Mental Health and Alcohol Services (HHS)
Health Services Grants (HHS)
Rehabilitation Loan Program (HUD)
Land and Water Conservation Fund (DOI)
Urban Park Grants (DOI)
LEAA (DOJ)
Welfare Reform Demonstration Project (DOL)
Public Service Employment (State)
UN Voluntary Contribution (State)
Coast Guard facilities (DOT)
Airport programs (DOT)
Highway construction (DOT)
Waste Treatment Construction Grants (EPA)
Facilities construction (NASA)
Space Science (NASA)
Facilities construction (VA)
Export Loans (ExIm Bank)
Business Loan and Investment Fund (SBA)
Applied Research (NSF)

The details concerning reductions in these and other federal programs will be made public along with the budget revisions at the end of this month.

MORE

Executive Branch Hiring Limitation

The limitation on Executive Branch hiring will take effect immediately and its duration is indefinite.

Agencies are restricted in filling full-time permanent positions to no more than 50 per cent of vacancies that occur after February 29, 1980. Vacancies that existed prior to that date may be filled, but only by using the allowed 50 per cent of vacancies occurring after February 29.

For purposes of illustration, a 50 per cent hiring limitation will result in a reduction of 6,500 full-time permanent positions per month. Over a 90-day period, this would mean that about 19,500 vacancies would not be filled, producing savings of up to $57 million.

PAY AND PRICE STANDARDS

Pay Standard for Second Program Year

The Pay Advisory Committee's recommendation for a 7.5 per cent to 9.5 per cent range of permissible increase has been adopted as the second year pay standard under the voluntary program.

Although the Administration has adopted a range rather than a single standard, it is expected, nonetheless, that wage settlements nationwide will average about the midpoint of the range, 8.5 per cent.

All businesses with more than 1,000 employees that settle on pay increases above 8.5 per cent will be asked to report such settlements to the Council on Wage and Price Stability, along with supporting statistical information.

The Pay Advisory Committee's recommendation for a second year 7.5 per cent Cost of Living Adjustment evaluation has been adopted.

Price Standard for Second Program Year

The price standard for the second program year issued in final form by the Council on Wage and Price Stability on November 1, 1979, will be continued.

Intensified and Expanded Pay and Price Monitoring

The threshold for regular (quarterly), formal reporting of price change information to the Council on Wage and Price Stability will be lowered from companies with $250 million or greater in annual sales to companies with $100 million or greater in annual sales. This will more than double the number of business firms intensively monitored by CWPS (from about 1200 to about 2500).

Pre-notification of price changes will be selective -- where it appears to be needed and makes sense. There will be no standard requirement for pre-notification by all businesses that are affected by the regular reporting requirement.

Expansion of the Council on Wage and Price Stability

The staff capability of the Council on Wage and Price Stability will be more than doubled to administer the intensified program. Most of the added people will support price and pay monitoring activity. Audit capability will be added. Price monitoring will be greatly strengthened. Initial review time will be reduced; CWPS will evaluate exceptions requests faster and reduce decision time.

GASOLINE CONSERVATION FEE

Nature of Fee

The fee will be $4.62 per barrel on imported crude oil. The cost of this fee will be shifted entirely to the production of gasoline. The expected effect of the fee on gasoline prices will be about 10 cents a gallon. Imports of gasoline will also be subject to a charge, equal in amount to the expected average impact of the fee on gasoline of 10 cents a gallon, or $4.20 per barrel.

The conservation fee is temporary; the President will submit to the Congress legislation to establish a tax on motor fuels. When that tax is enacted the fee will be removed. Such tax legislation would have the same favorable effect of reducing petroleum imports but would eliminate the need for the complex administrative regulations to shift the cost of the import fee to gasoline.

The fee is effective for gasoline produced or imported and crude oil imported after 12:01 a.m., March 15, 1980. A Presidential Proclamation providing the framework for the detailed mechanisms of the plan will be issued in the next few days, effective March 15, 1980.

These actions are taken under authority of Section 232(b) of the Trade Expansion Act, and of the Emergency Petroleum Allocation Act (EPAA). The Trade Expansion Act gives the President authority to take action to adjust levels of imports that threaten national security. Such adjustments can be made through the imposition of an import fee, and the establishment of a program to shift the fee to gasoline. The EPAA provides the President with authority to impose price and allocation controls on crude oil and refined products.

In accordance with the Trade Expansion Act, the Secretary of the Treasury conducted an investigation last year into the Nation's dependence on oil imports and concluded that the levels of such imports threaten national security.

Shifting the entire cost of the fee to gasoline will focus the fee on the product which provides the greatest conservation potential without unduly affecting the economy. The expected effect of the conservation fee followed by the motor fuels tax, is to reduce gasoline and diesel consumption and imports by approximately 100,000 barrels a day by the end of the first year, and up to 250,000 barrels by the end of the third year.

The fee will raise the price of gasoline by about 10 cents per gallon, effective May 15, 1980. The direct effect of this increase will raise overall consumer prices by about 1/2 percentage point. The majority of this increase will be reflected in the CPI during May and June. Over the following year additional (but much smaller) indirect effects will be felt elsewhere in the economy, as gasoline costs are passed on. In total, these direct and indirect effects will increase the CPI by about 3/4 of one percentage point.

There are certain offsetting factors, however. To the extent we can reduce our appetite for imported oil and bring supply and demand into balance, pressure on OPEC to raise prices will decrease. This fee will not only produce additional demand restraint, it demonstrates the willingness of the United States to make sacrifices to curtail gasoline use. This is an important element in securing the international cooperation that is vital if we are truly to bring the oil price explosion under control.

The program will not cause the price of uncontrolled domestic crude oil to rise, since the entitlements program will shift the entire fee to gasoline producers and reimburse crude oil importers to the extent that they do not produce gasoline.

The measure will also increase federal revenues by just over $10 billion annually.

(MORE)

How the Cost of the Fee Will be Shifted from Crude Oil Imports to Gasoline Production

The entire burden of the crude oil import fee will be shifted from importers to gasoline producers. This will be accomplished through a mechanism similar to, but separate from, the current Entitlements Program -- a system of payments among refiners designed generally to equalize their crude oil costs.

The mechanism will require importers of crude oil to pay the import fee to the Government. At the same time, however, the importers will be reimbursed for this expense by gasoline producers, who will be required, for each barrel of gasoline produced (whether from domestic or imported crude oil), to purchase an "entitlement" to produce gasoline from any firm which imports crude oil. As a result of the entitlement program, refiners and regions that are dependent upon imported oil will not be disproportionately affected by the new import fee.

TAX ON MOTOR FUELS

Determination of Tax Rate

The President will send to Congress legislation establishing a tax on gasoline and diesel motor fuel, starting at 14 cents per gallon. (The present 4 cents a gallon tax would be repealed.) The rate of tax will be adjusted, not more than quarterly, in accordance with changes in the price indices of producers (refiners) prepared by the Department of Labor.

In that way, the tax will be the equivalent of an ad valorem tax at a constant fixed percentage of producers' average selling prices. The indices will be those for refiners' sales of gasoline and diesel motor fuel to commercial consumers. The gasoline index used will be that for unleaded fuel. Changes in the tax rate will be announced by the Treasury Department. No changes will be made unless the change in an index will result in a tax change of at least one half cent a gallon.

Payment of Taxes

The new taxes will be paid by those who now must pay the 4 cents per gallon tax on gasoline and diesel fuel.

Exemptions, Credits, and Refunds

Many of the existing exemptions, such as for sales to State and local governments, will be retained. In other cases, the magnitude of the exemption, credit, or refund will not be less than under present law.

Floor Stocks Taxes and Refunds

Tax increases or decreases will not be collected or paid on tax-paid products in inventory at the time of change.

Highway Trust Funds

Revenues from the new taxes will be transferred to the Highway Trust Fund in amounts not less than the equivalent of the revenues from a tax of 4 cents a gallon on gasoline and diesel fuel.

Revenue

Each 1 cent of the equivalent tax will raise $1.2 billion annually at 1981 income levels.

Effective Date

The new ad valorem equivalent tax on Motor Fuels is to be effective with the ending of the import fee. Gasoline importers and producers will receive a credit against the new gasoline tax for the import fee or entitlement obligation already paid on gasoline in stock. For diesel fuel, the tax is to be effective the day after the import fee is terminated.

STATE GASOLINE TARGETS

The National Target

The annual national gasoline conservation target will be set at 7.0 million barrels per day, measured according to the Federal Highway Administration (FHWA) data series. These data measure gasoline sales in individual states throughout the nation.

This target is about 5½ per cent below average daily consumption for 1979. Individual states' targets, based on the national target, are being set for the second quarter of 1980. Next week, letters will be sent to the states specifying second quarter targets.

Consultations with the States on Methodology

During the last few weeks, the Department of Energy (DOE) has reviewed a revised methodology for setting individual states' voluntary gasoline conservation targets with officials from the states, Puerto Rico, and the District of Columbia. The comments received indicate the methodology to be basically sound, although DOE will continue to evaluate the revised formula.

The new methodology uses a sum of 12 months of state gasoline sales data -- rather than monthly gasoline tax data used in developing state targets for the first quarter of 1980. Monthly shares are then computed based on prior consumption and prior conservation efforts, and take into account recommendations submitted by state officials for allocating the annual allotment as monthly shares.

The new method of calculating targets is more realistic because monthly data were found to have several reporting variations. It also gives additional weight to the recent lower gasoline consumption which has occurred because of conservation and economic factors.

Monthly Energy Review (EIA) Data Compared to FHWA Data

Two different data series have been used to measure gasoline consumption. The two series are DOE's Monthly Energy Review (MER) and the Federal Highway Administration (FHWA) data series. The FHWA data, because of the inclusion of gasoline which is not imported or produced at domestic refineries, but comes rather from secondary sources, are about 350,000 barrels per day higher than MER data.

For 1979 DOE's MER data reported national gasoline use ("product supplied") at 7.029 million b/d. The corresonding figure reported by FHWA is 7.4 million b/d. Because only the FHWA data system provides information on a state-by-state basis, the national target of 7.0 million b/d is set in terms of FHWA statistics. This national target would likely correspond to an MER "product supplied" figure for 1980 of 6.65 million b/d.

Average Gasoline Consumption in the Last Five Years

	FHWA Data (Approximate)	Monthly Energy Review Data
	(million b/d)	(million b/d)
1975	6.81	6.68
1976	7.13	6.98
1977	7.37	7.18
1978	7.63	7.41
1979	7.40*	7.03

*estimated

Mandatory Targets

It is expected that the target set by the President today will be achieved through voluntary compliance efforts by the States. In his State of the Union address, the President said, "After consultation with the governors, we will set gasoline conservation goals for each of the 50 states, and I will make them mandatory if these goals are not met."

The President has authority to make the targets mandatory pursuant to Section 211 of the Emergency Energy Conservation Act of 1979 (Public Law 96-102, 93 Stat 749(1979)) whenever he finds, with respect to the energy source involved, that "a severe supply interruption exists or is imminent." This criterion is defined in Section 202 of the Act, which in effect empowers the President not only to determine the existence of an interruption, but to act in anticipation of a potential interruption.

If the targets were made mandatory, the States would be required to submit emergency conservation plans within 45 days. If no such plan were submitted, or if disapproved, or if the plan fails substantially to meet the conservation target within a reasonable period of time (but not less than 90 days) and the required statutory shortfall exists or is expected, a standby Federal conservation plan may be ordered implemented in the State.

The standby Federal conservation plan was published in the Federal Register on February 7, 1980, and is currently the subject of public hearings. The comment period ends on April 7, 1980, and a final plan will be issued thereafter.

WITHHOLDING ON INTEREST AND DIVIDENDS

Currently no tax is withheld on payments of interest and dividends to domestic taxpayers, although taxes are withheld from wage recipients. Payors of certain categories of interest and dividends are required to report to the IRS and the recipients the amount of interest and dividends paid.

The President will propose legislation to change the current payment practice. Under the legislation, payors who now report taxable interest and dividends to both IRS and recipients would be required to withhold 15 per cent of such payments. Individuals who reasonably believe they will owe no tax, and exempt organizations, would not be subject to withholding if they file exemption certificates with the interest or dividend payor. This system of reporting and withholding would be extended to interest on other taxable instruments where practical.

A recent IRS report estimated that between $5.4 and $9.4 billion of additional interest income and between $2.1 and $4.7 billion of additional dividend income should have been reported on individual income tax returns in 1976. While only 2-3 per cent of wages and salaries went unreported, the comparable figure for interest and dividends was 9-16 per cent. The use of information documents and audit procedures cannot by themselves effectively close this reporting gap because of the difficulty of following up on millions of interest and dividend transactions.

Withholding at a 15 per cent rate will not result in undue hardship because the lowest rate bracket at present is 14 per cent. Thus, few individuals would be deprived of the use of over-withheld funds until they receive a refund of tax. In addition, under the proposal, persons who reasonably believe they will owe no tax may file exemption certificates and avoid withholding altogether.

Withholding would increase tax collections by $2.5 billion or more per year beginning in fiscal 1981. Practically all this revenue comes from increased compliance, except in the first year, in which much of this increased revenue would come from the acceleration of payments.

Change in Revenue
($ billion)

Fiscal year	Increased compliance	Change in Timing	Total
1981	1.0	2.4	3.4
1982	2.2	0.3	2.5
1983	2.5	0.3	2.8

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EMBARGOED FOR RELEASE
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MARCH 14, 1980.

Office of the White House Press Secretary

THE WHITE HOUSE

TEXT OF THE PRESIDENT'S
ADDRESS ON ECONOMIC POLICY

The East Room

Persistent high inflation threatens the economic security of our country.

Since my economic and budget reports in January, rapid changes in world events and economic prospects have made it necessary to intensify our anti-inflation fight.

In the last eight weeks, interest rates have surged to unprecedented heights and inflation has sharply intensified.

This is a worldwide problem. During the last two reporting months, the increases in the wholesale price index in Japan, Great Britain and Italy have all exceeded an annual rate of 25 percent. Even in West Germany the inflation rate in wholesale prices was 13 percent.

The inflation we face today is deeply rooted. Its many causes have built up over more than a decade. The most important of these causes are soaring world oil prices, declining productivity growth and our failure in government, as individuals, and as a society to live within our means.

Inflation is a symptom of economic distress. The truth is that we have inflation because our economy is not productive enough to do all the things we demand of it. We want it to give us higher incomes, bigger profits and bigger government programs in our favorite area.

The federal government must stop spending money we do not have and borrowing to make up the difference.

Our whole society -- the entire American family -- must try even harder to live within its means. As individuals and as a nation, we must begin to spend money according to what we can afford in the long run -- not according to what we can borrow in the short run.

There are no quick answers to inflation and above all no painless answers. If there were any such solutions, they would have been implemented long ago. We cannot abolish inflation overnight by just passing a law against it. Only a long-term effort -- with the partnership of business and labor, individual citizens and all branches and levels of government -- can succeed in bringing this problem under control.

This dangerous situation calls for urgent measures. We must act firmly and decisively. We must act now. We must remove any doubt about this nation's will to take the painful steps needed to control inflation. We cannot accept high rates of inflation as a permanent fact of life.

MORE

The intensive anti-inflation program I am announcing today involves five major components:

- -- First, discipline by reduction in the federal budget.
- -- Second, discipline by restraints on credit.
- -- Third, discipline by wage and price actions.
- -- Fourth, discipline by greater conservation of energy.
- -- Fifth, structural changes to encourage productivity, savings, and research and development.

Let me discuss them one by one.

First, the budget.

I will soon set forth a revised budget for fiscal year 1981 -- which begins on October 1 of this year. It will be a balanced budget, and I intend to keep it in balance.

Since the last balanced budget 12 years ago we have added almost one-half trillion dollars to our national debt. In 1981 we will thus achieve an objective that has almost always eluded our country -- in good times and bad -- a balanced budget.

By the end of this month, I will send to the Congress a major revision in both my 1980 and my 1981 budgets.

I will propose significant reductions of budget authority from the current budget, in order to cut spending this fiscal year and next.

I will cut spending in the 1981 budget by more than $13 billion. To reach that goal, I will:

- -- Defer, reduce or cancel most of the new or expanded programs that were originally proposed in the 1981 budget.
- -- Cut expenditures for personnel, operations and maintenance throughout the government.
- -- Freeze federal civilian employment immediately, and maintain rigid ceilings so that by the end of October of this year we will have 20,000 fewer federal employees.
- -- Reduce ongoing spending programs throughout the federal government.

I urgently request from the Congress the savings and revenue measures in the budget I submitted in January. I want to stress particularly the legislation needed to hold down hospital costs, to reform federal pay, and to speed up collections of revenue.

When budget cuts demand sacrifices from many Americans, it is intolerable for some to evade prompt payment of taxes. I will send to the Congress legislation to make sure that taxes that are owed on interest and dividends are actually paid, and paid in a timely manner.

I will maintain my commitment to a strong defense and to the level of real growth in defense spending which we pledged to our NATO allies. But the Defense Department will not be immune from budget austerity. In particular, I will require that the Department make savings that do not affect our military readiness. I consider the proposed defense budget adequate to meet our nation's needs. We must maintain budget restraint and fiscal responsibility in all government agencies.

Based on our estimates of economic and budgetary developments, the actions I have described will produce a balanced budget in 1981.

In our system, Congress controls the power of the purse. The recent intense efforts of the Congressional leaders and my close consultation with them have convinced me that the Congress will indeed enact and maintain a balanced budget, as I am recommending. But to ensure that outcome I will use every power at my command:

- -- As I did last week on a popular bill, I will veto any legislation that exceeds the spending limits consistent with a balanced budget.
- -- I will use my full powers under the 1974 Budget Reform Act to hold down federal spending, including some expenditures which have previously been authorized.
- -- If during the course of the year I judge that these actions and powers are not sufficient, I will ask the Congress for a temporary grant of extraordinary powers to ensure that spending is contained.

Cutting back federal spending to match revenue is not a cure-all -- but it is an essential first step. The sources of inflation are far too complex to be treated by a single remedy. But nothing will work until the federal government has demonstrated that it can discipline its own spending and borrowing -- not just as a one-year exercise, but as a long-term policy. Together, we will do just that. We will dispel the notion that deficits will always be with us.

I want to be absolutely honest about these budget cuts. We have been cutting out waste and fraud and trimming the bureaucratic fat. But this time, there will also have to be cuts in good, worthwhile programs -- programs which I support very strongly.

In this critical situation we must all look beyond some of our most worthwhile immediate aims to be the overriding permanent needs of the whole nation.

Our second area of action is restraining the growth of credit.

Just as our governments have been borrowing to make ends meet, so have individual Americans. But when we try to beat inflation with borrowed money, we just make the problem worse.

Inflation is fed by credit-financed spending. Consumers have gone into debt too heavily. The savings rate in our nation is now the lowest in more than 25 years. As inflationary expectations have worsened, businesses and other borrowers are tempted to use credit to finance speculative ventures as well as productive activities.

The traditional tools used by the Federal Reserve to control money and credit expansion are a basic part of the fight on inflation. But in present circumstances, those tools need to be reinforced so that effective restraint can be achieved in ways that spread the burden reasonably and fairly.

I am therefore using my power under the Credit Control Act of 1969 to authorize the Federal Reserve to impose new restraints on the growth of credit on a limited and carefully targeted basis. Under this authority the Federal Reserve will:

-- Establish controls for credit cards and other unsecured loans but not for secured loans on homes, automobiles, and other durable goods.

-- Restrain credit extensions by commercial banks that are not members of the Federal Reserve System and by certain other money-market lenders.

The Chairman of the Federal Reserve will announce a voluntary program, effective immediately, to restrain excessive growth in loans by larger banks and other lenders. At the same time, the program will encourage the flow of available credit supplies for investment and other productive uses. Special attention will be given to the particular needs of small businesses, farmers, and homebuyers. I support these initiatives by the Federal Reserve.

These carefully targeted actions will not damage the productive capacity of our nation. By helping to curtail excessive uses of credit and dampening inflation, they should -- along with the budgetary measures I announced -- speed prospects for reducing the strains in financial markets.

In addition, I am taking steps to reduce the extension of credit by the federal government. Federal loans and loan guarantees will be cut by nearly $4 billion in fiscal 1981.

As a longer-run measure, I urge Congress to institute the credit budget I proposed in January. It will help us control more effectively the loans and loan guarantees provided by the federal government.

Our third area of action is the voluntary wage and price standards.

I do not have authority to impose controls. I do not seek that authority. We will not impose mandatory wage and price controls. Government wage and price controls have never worked in peacetime. They create unfair economic distortions and hurt productivity. These results always force price controls first to be eased and then dismantled -- while inflation roars ahead.

Controls create inequities -- and the greatest inequity is their effect on the average family. As even the most ardent advocates of mandatory controls concede, the cost of vital necessities such as food and fuel would be passed on to those living on frozen wages and fixed incomes.

We cannot outlaw inflation with a massive federal bureaucracy, or wish it away with magic formulas.

On the other hand, voluntary wage and price standards offer the flexibility we need to deal with our complex economy.

The Council on Wage and Price Stability has just issued revised pay standards and confirmed an extension of the price standards.

The new pay standards were developed from the recommendation of a Tri-Partite Advisory Committee, with members from business, labor and the public. The Committee unanimously recommended standards for pay increases in the range of 7-1/2 to 9-1/2 percent, and stated that under normal circumstances increases should average 8-1/2 percent. I am determined to meet that goal.

MORE

In the fact of last year's 13 percent increase in the consumer price index, and the even higher rate of recent months, this unanimous recommendation of the Pay Advisory Committee -- designed to produce an average wage and salary increase of 8-1/2 percent -- reflects a commendable spirit of restraint and cooperation. With business, labor and public support, we can meet this goal of restraint.

I am sharply expanding the price and wage monitoring activities of the Council on Wage and Price Stability. Its current staff of 80 people will be more than tripled. The Council will establish teams of experts to track wage and price developments in each major industry. The Council will meet with leaders from specific industries to secure their cooperation. Where necessary, we will ask large firms for pre-notification of significant price increases. We will investigate wage and price increases that seem out of line with the standards. I mean to apply those standards with vigor and toughness to both business and labor.

Our fourth area of action is energy.

The plain truth is that we will never be completely strong at home or secure abroad until we have at last solved our nation's excessive dependence on foreign oil.

The price of imported oil has more than doubled in the last 12 months. Last year's increase alone was greater than all other increases combined since the oil embargo of 1973.

We must forge ahead toward the goal I set last July -- cutting in half the amount of oil we import by 1990. To do this will require increased production of domestic oil, natural gas and coal -- unrelenting efforts for conservation -- and the rapid development of alternative energy sources.

For three years I have fought for a national energy policy to achieve each of these goals. Today, at long last, we are close to enacting such a policy into law. We must not falter now.

I am asking the Congress to finish without delay the three essential pieces of the energy program -- the Windfall Profits Tax, the Energy Security Corporation, and the Energy Mobilization Board. These bills are cornerstones for our energy security, our national security, and our fight against inflation.

I have recently submitted a proposal to Congress to conserve energy in electric power plants and to convert them from oil to coal and other fuels. This too must be passed promptly.

But we can never solve our energy dependence unless we meet the problem of extravagant gasoline use.

Gasoline is the most important and most wasted petroleum product in the United States. It accounts for some 40 percent of all the petroleum we use. In almost every other industrial country, the average amount of gasoline used by each citizen is much lower than ours, and the average price is much higher. Americans have done well in the past year in gasoline conservation. But if we are going to reduce further our dependence on foreign oil, we must do more.

Therefore, I am exercising my Presidential authority to impose a gasoline conservation fee on imported oil. This will be applied solely to gasoline in an amount equal to about 10 cents a gallon. The fee will not add to the cost of any other oil product. It will not add to oil company profits. It should reduce imports by 100,000 barrels a day by the end of a year, and later by as much as 250,000 barrels per day.

MORE

I will submit to Congress a request for a specific gasoline tax which will replace the conservation fee.

The funds from the gasoline conservation charge will be held in reserve or used to reduce the national debt. I do not intend to use these revenues to balance the budget or as a substitute for necessary spending cuts. But these revenues, which will begin accruing immediately, will give the budget a margin of safety -- ensuring that it remains in balance even if conditions or estimates change.

We can now set new targets for gasoline consumption nationwide which will reduce consumption by 400,000 barrels per day.

This action also underscores a commitment to greater conservation that our friends abroad -- both producing and consuming nations -- can join and support.

Finally, the Secretary of Energy is pursuing an intensified national energy conservation plan. Our aim is to involve every level of government, business, labor -- in fact, every single citizen -- in conserving American energy.

Our fifth area of action involves long-term structural changes to encourage productivity, savings, and research and development.

We have already begun to make progress in reforming government regulations which interfere with these goals. Since taking office, I have worked to root out unnecessary government regulations and to make cost-effective those which are necessary. I urge the Congress to pass the Regulatory Reform Act, which will strengthen our efforts.

As much as possible, we need to let the private enterprise system be free to compete. We have succeeded in deregulating airlines. I urge the Congress to speed passage of comprehensive bills to cut regulation of banking, trucking, railroads and communications.

We must also encourage savings. The single most important way we can do that is to phase out the ceilings that limit the return most small savers can earn. A financial institutions reform bill which makes this change has just been approved by a House-Senate Conference Committee. I urge its quick passage.

We must face the fact that over the last 10 years the pace of productivity growth in our country slowed sharply. Last year it actually declined.

This trend is an important long-term factor in inflation. It must be reversed.

I am asking my Presidential Commission on an Agenda for the 1980s as part of their work to develop specific recommendations for revitalizing our economy.

Our priority now is to balance the budget. But once these spending limitations have actually been achieved, we can then provide tax relief to encourage investment. Through fiscal discipline today, we can free up resources tomorrow for the productivity improving tax reductions our nation needs.

This discipline will not be easy. Our new budgets will be very tight. There are some things we cannot afford -- at least not now. But the most important thing we cannot afford is the national delusion we have been harboring about inflation. We cannot afford the fairy tale that inflation can be passed on to the next person -- or to the next generation.

The actions I have outlined involve costs. They involve pain. But the cost of acting is far less than the cost of not acting. The temporary pain of sacrifice and discipline is far less -- for all of us together -- than the still worse permanent pain of rising inflation. For all of us, but especially for the most needy, inflation is indeed the most cruel tax of all.

If we take these necessary steps against inflation, it will not result in a quick victory. Over the next several months, inflation is likely to continue at a high level. We must be patient and persistent.

I am confident that with the steps I am proposing today, the inflation rate will be declining later this year. As that happens, we may look forward to calmer financial markets and lower interest rates.

By taking control of this problem -- which involves taking control of ourselves -- we can put an end to the fear about the future that afflicts so many of our people and institutions.

In the fight against inflation, what is at stake is more than material wealth or material comfort. What is at stake is whether or not we Americans -- as a nation, as a people -- will control our own destiny.

In crises abroad, we have always shown our ability to respond with steadfastness and courage. We must now show the same determination in meeting the challenge of inflation.

With inflation, as with defense and energy, our responsibility is clear:

- -- to face the world as it is, and to be honest about the hard decisions that are necessary;
- -- to make those decisions and to carry them out; and
- -- to build together a strong and secure and hopeful future for every American.

With proper discipline we will prevail in our fight against inflation.

# # #

Department of Energy

Program to Assure
Adequate Distillate Supplies
For Next Winter

Heating oil stocks will be built to safe levels for this winter. Based on current projections of oil imports, safe stock levels can be built while still providing consumers with adequate supplies of diesel fuel, gasoline and other products during the remainder of this summer and fall, assuming continued efforts to restrain petroleum use.

There is no need for individuals or firms to engage in panic buying of heating oil or abnormal "tank topping" to assure adequate supplies for next winter. Supply problems can be minimized by maintaining an orderly market, and continued responsible actions to avoid unnecessary petroleum use.

The Need to Build Distillate Stocks

U.S. demand for distillate is high in winter because of heating needs and lower in summer. The U.S. refining industry cannot produce enough distillate during the heating season to meet peak winter demand. Consequently, industry must build stocks during the lower summer demand period which can be drawn down to augment production and imports during the heating season.

DOE has a target of achieving 240 million barrels (MMB) of distillate in primary stock by the end of October. These are stocks held by refiners, pipeline companies and bulk terminal operators. This target was selected in order to:

- provide protection against a colder than normal winter; and

- protect against potentially low stocks held by distributors and end users.

In setting the desired stock level, DOE considered a range of potential distillate demand during the heating months of October 1979 through March 1980. For planning purposes, it was assumed that distillate demand during the six months could average about 4.15 million barrels per day (MMB/D), compared with 4.11 in 1976-77, 4.00 in 1977-78 and 3.99

in 1978-79. The estimate of 4.15 MMB/D assumed that the winter might be as severe as in 1976-77, which was about 20% colder than normal in the regions relying heavily on heating oil. It also assumed that, if necessary, conservation efforts next winter and savings from switching to natural gas could largely offset the growth in distillate demand (primarily for diesel fuel) which has been occurring in recent years.

DOE also concluded that it was necessary to assure that distillate stocks at the primary level will be adequate even if stocks held by fuel oil distributors and end users are lower than normal. DOE is now developing information on the level of normal and current stocks held by distributors and users. Better information on these secondary and user stocks is to be available by mid-September, but the information can never be complete. It is therefore prudent to assume that they may be somewhat below normal.

With distillate stocks at 240 MMB this fall and assuming supplies for refiners continue at 15 MMB/D or higher next winter, adequate supplies (averaging 4.15 MMB/D) could be provided through the winter, even if distributor and end user stocks were 20 MMB lower than normal at the start of the heating season.

In the event there is another interruption of crude oil imports this winter similar to the Iranian interruption of last winter, refiners could increase distillate production enough to provide adequate heating oil supplies if primary distillate stocks are at 240 MMB this fall. This would require refiners to produce distillate at a yield of up to 25% for much of the winter. If the winter is less severe, a lower yield would suffice.

If the weather is normal or if crude runs are higher next winter, a 240 MMB stock level will permit refiners to build up gasoline stocks for next summer, and help avoid gasoline shortages in 1980. If the winter is very cold or if crude oil imports are reduced, refiners are not likely to be able to rebuild gasoline stocks this winter.

In addition to the need for adequate distillate stocks at the primary level, DOE will be acting to help assure that essential stocks are built at the secondary and end user levels. It is necessary to assure that heating oil stocks are moved into certain areas of the country before rivers

and lakes freeze, if those areas are dependent on movement of heating oil by water.

DOE also will try to assure that total heating oil stocks held by distributors, dealers and users are close to normal levels this fall (the 240 MMB in primary stocks can protect against at least a 20 MMB shortfall in secondary and user stocks). Because of the lack of verified data on the amount of stocks held by distributors and users, it will be necessary to rely heavily on informal estimates, partial surveys and identification of specific problems by State and local officials.

Outlook For Achieving The Stock Targets

It is expected that crude oil imports will be adequate to permit crude input to refineries of 15 MMB/D or higher through October. With crude oil runs at this level, refiners should be able to achieve the 240 MMB primary stock target, rebuild secondary and user stocks, and maintain distillate supplies for current consumption at the 1978 level, while still maintaining gasoline supplies at 96% to 98% of the 1978 level, as shown in Table 1. If imports are unexpectedly interrupted again, the desired distillate production still could be achieved by increasing the percentage yield of distillate from available crude oil. This would reduce gasoline supplies somewhat, as shown in Table 2. The primary uncertainty is whether refiners will shift refinery yields enough voluntarily to build stocks to acceptable levels, or whether it will be necessary to direct refiners to increase distillate production.

Table 1 assumes crude runs of 15 MMB/D (8.4 domestic and 6.6 of net crude oil imports, or 6.4 imports and .2 crude oil stock use). It assumes a combined gasoline and distillate yield of 66% during September and October. It assumes distillate imports of 200,000 B/D, and gasoline imports of 200,000 B/D. Based on current projections of crude oil imports, it is expected that crude oil runs to refineries will average 15 MMB/D or higher during this four-month period. If crude runs are higher than 15 MMB/D, the distillate stocks could be built faster than shown without reducing gasoline supplies. Alternatively, distillate stocks could be higher by the end of September by increasing the distillate yield in August and September.

Table 1

15.0 MMB/D Crude Runs	June 1/ Est.	July 2/	Aug.	Sept.	Oct.
Distillate					
Refinery Yield (%)	21.4	21.3	22.0	24.0	23.0
Refinery Output and Imports (MB/D)	3328	3457	3500	3800	3650
Current Deliveries (MB/D)	2734	2650	2780	2655	3070
Daily stock build up (MB/D)	595	807	720	1145	580
End of month stock level (MMB)	142	167	189 3/	223 3/	240
Gasoline					
Refinery Yield (%)	43.6	43.3	43.0	42.0	43.0
Refinery output & imports (MB/D)	7214	7325	7250	7100	7250
Stock drawdown (MB/D)	-77	-180	300	200	100
Demand in 1978 (MB/D)	7917	7579	7872	7406	7461
Percent of 1978 demand	90.0%	94.3%	96.0%	98.5%	98.5%

1/ Crude runs in June averaged 14.7 MMB/D.

2/ The estimates for July are based on preliminary data through July 27; actual data for July were not complete at the time of this analysis.

3/ Based on the stock build up plans of the major refiners, stocks may exceed these levels at the end of August and September.

Table 2 shows how the distillate stock and supply targets could be met in the event of another interruption of crude oil imports that reduces crude oil runs to 14.6 MMB/D (8.4 domestic and 6.2 of net crude oil imports, with no crude oil stock use). It assumes 150,000 B/D of distillate imports and 180,000 B/D of gasoline imports. It assumes a combined distillate and gasoline yield of 65% of crude runs in August through October, which is 2% lower than refiners averaged last fall.

Table 2

14.6 MMB/D Crude Runs	June Est.	July	Aug.	Sept.	Oct.
Distillate					
Refinery Yield (%)	21.4	21.3	22.0	24.8	24.8
Daily stock build up (MB/D)	595	807	583	1118	703
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Refinery yield (%)	43.6	43.3	43.0	40.2	40.2
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Both cases assume gasoline stocks are drawn down by a total of 18 MMB in August-October, and that distillate demand is the same as in 1978 during the three months.

Table 1 can serve as a general guide in determining whether levels of distillate yields and stocks are acceptable, depending on the levels of crude oil runs, distillate imports and demand. With higher refinery runs, there is more flexibility to catch up in September and October if stocks are slightly lower in July and August.

Actions to Assure Stocks are Built to Acceptable Levels

DOE is taking the following actions to assure that distillate stocks are built to acceptable levels.

1. DOE is taking steps to reduce distillate use. These actions include:

   - Removing regulatory impediments to switching from distillate to natural gas, and encouraging and assisting major distillate users to switch. DOE has established a team to identify and assist firms to switch to natural gas. DOE estimates distillate savings of up to 100,000 B/D from this effort this summer and 65,000 B/D next winter.

   - Encouraging electricity transfers, to use electricity generated from coal or hydroplants to substitute for oil fired plants. Distillate savings may be small, particularly in view of nuclear plant shutdowns.

   - Implementing a national mandatory building temperature control plan for all public, industrial and commercial buildings. It is estimated that this plan could reduce distillate use by at least 130,000 B/D next winter.

   It is expected that these actions can hold distillate demand to about the 1978 level this summer.

2. DOE has adopted a rule to encourage imports of distillate oil from Caribbean refineries. It provides a $5 per barrel entitlement benefit for distillate imports to help attract Caribbean-produced distillate to the United States rather than Europe.

3. DOE has worked with the largest refiners to set targets to build up distillate stocks voluntarily. On the basis of the information provided by 32 of the largest refiners, it is estimated that this voluntary effort could result in stocks of about 230 MMB by early October.

4. DOE is preparing the necessary rules to require all or some refiners to increase distillate production. DOE will be prepared to order an increase in distillate production, if this becomes necessary.

DOE also will be monitoring distillate production and stocks of the largest refiners on a weekly basis and will be prepared to issue individual orders if some refiners have an inordinately low distillate production compared with prior practices.

It is recognized that orders to increase distillate production may aggravate the gasoline supply situation. Distillate production orders also could adversely impact the output of other essential products and reduce refinery efficiency. Refinery production orders should be issued only if clearly necessary.

5. DOE will be monitoring the sales of distillate this summer to distributors and end users, as well as conducting surveys of distillate stocks held by distributors, dealers and major industrial users. If it is found that stocks at the secondary and user levels are lower than can be offset by the primary stocks, or if there are not firm plans to move stocks into areas that rely on waterborne supplies before freeze up, DOE will request suppliers to resolve the problems expeditiously. If necessary, DOE would use its regulatory authority to require allocation of supplies for building home heating stocks to acceptable levels at distributors or end users. Problems of inadequate heating oil stocks at the secondary and end user levels can be resolved in September and October prior to the start of severe weather, at a time when much of these secondary and user stocks normally are put in place.

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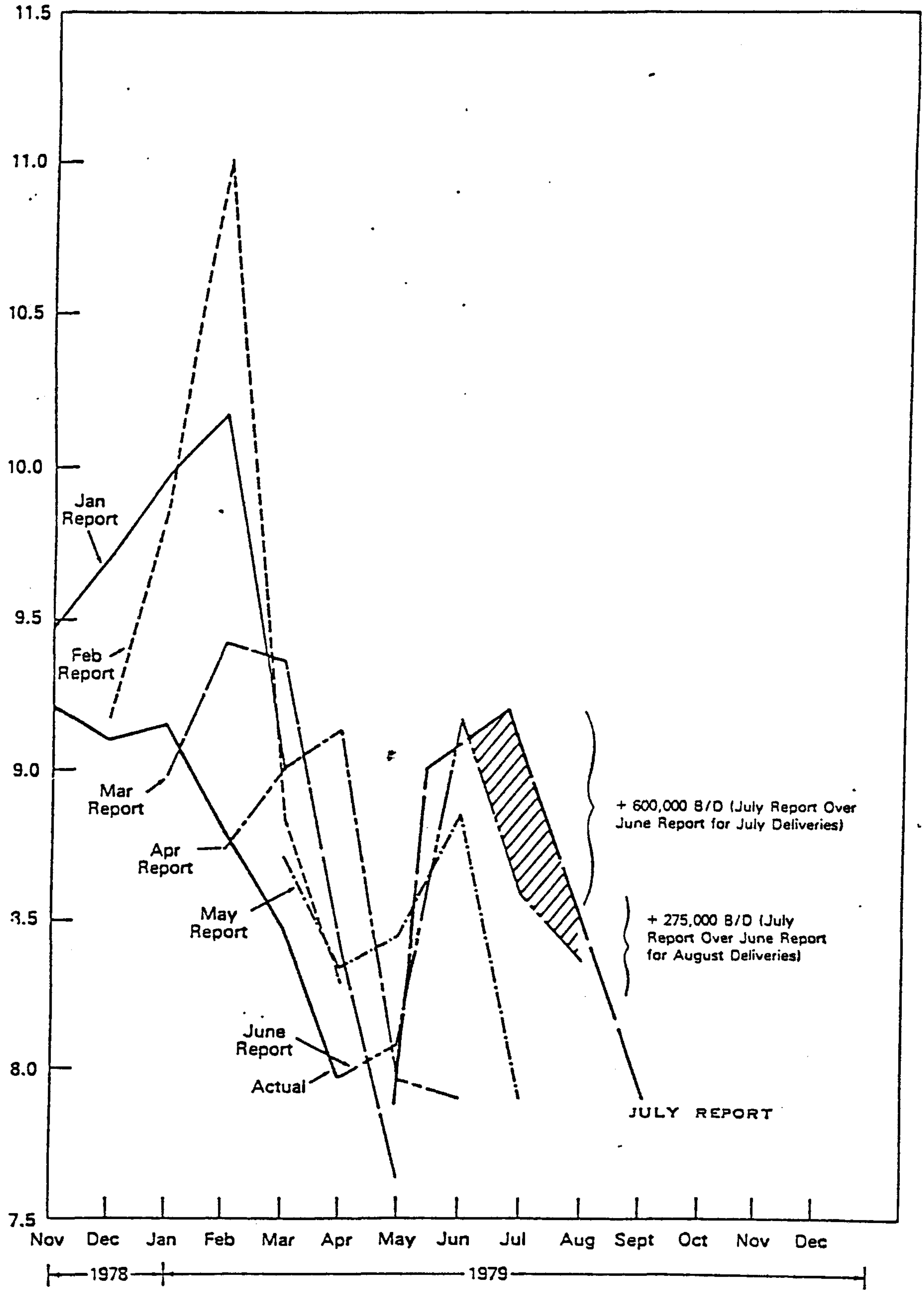
Anticipated U.S. Imports of Crude and Product
January- Sept 1979[1]

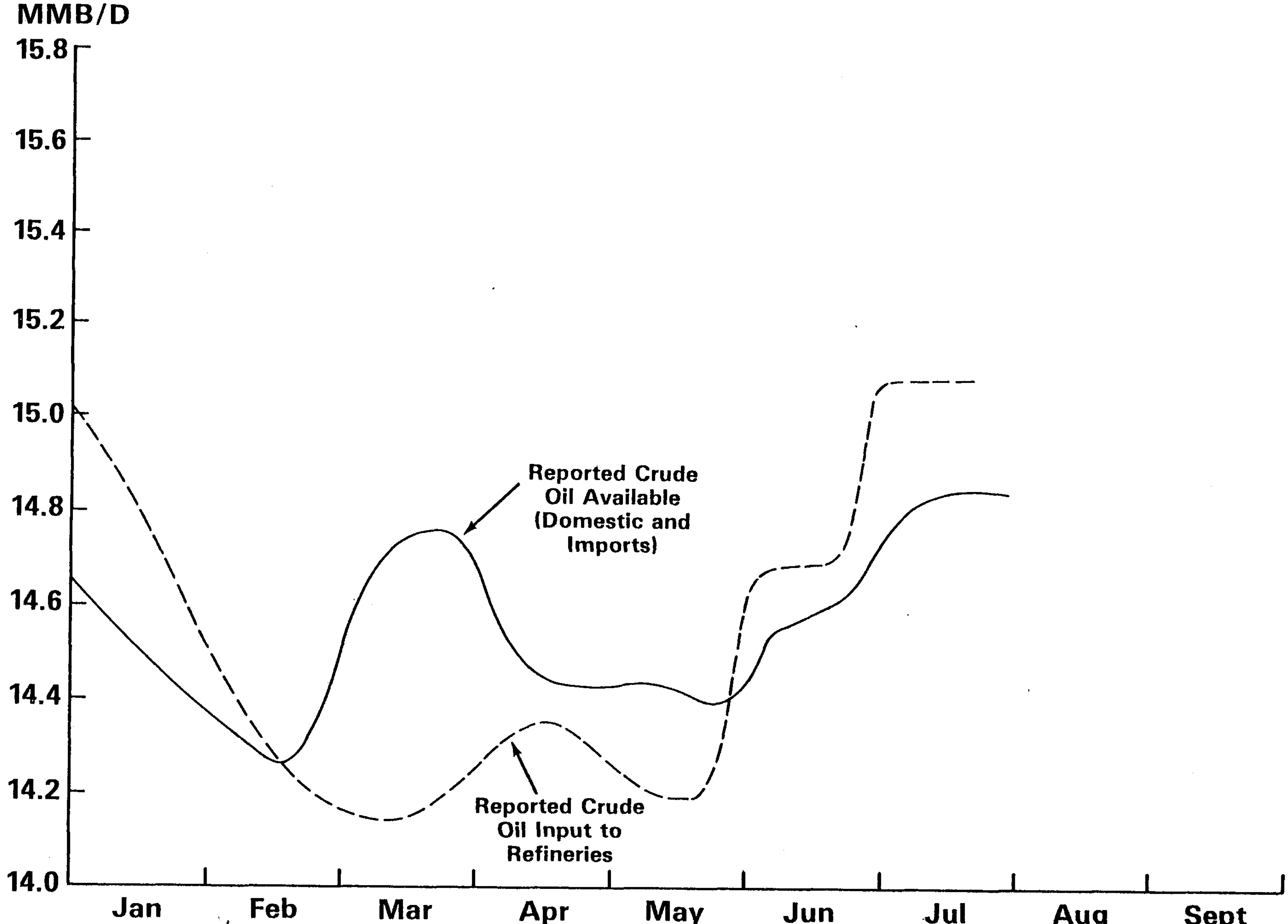


[1]Includes imports of crude oil and refined products to the 50 states plus Hawaii, Guam, Virgin Islands (crude imports only) and the Strategic Petroleum Reserve.

Sources:
(A) IEA Monthly Questionnaire B Reports for Projections; and
(B) DOE/ERA-60 (P113) Reports for actual data, converted to IEA reporting basis.

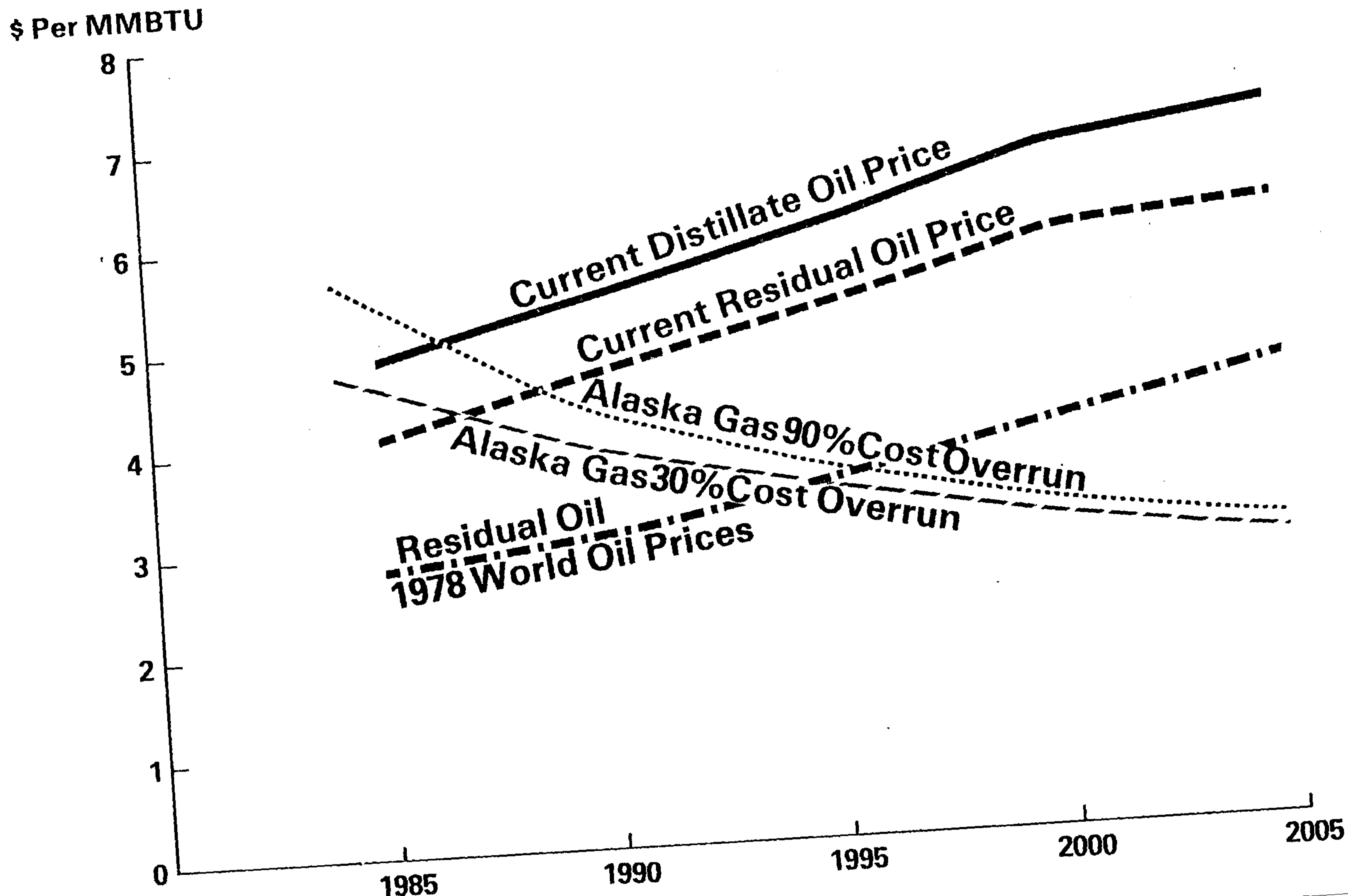
July 27, 1979

Comparison of Crude Oil Production and Imports With Crude Oil Input to Refineries



Alaska Natural Gas Costs Compared With Petroleum Product Costs *

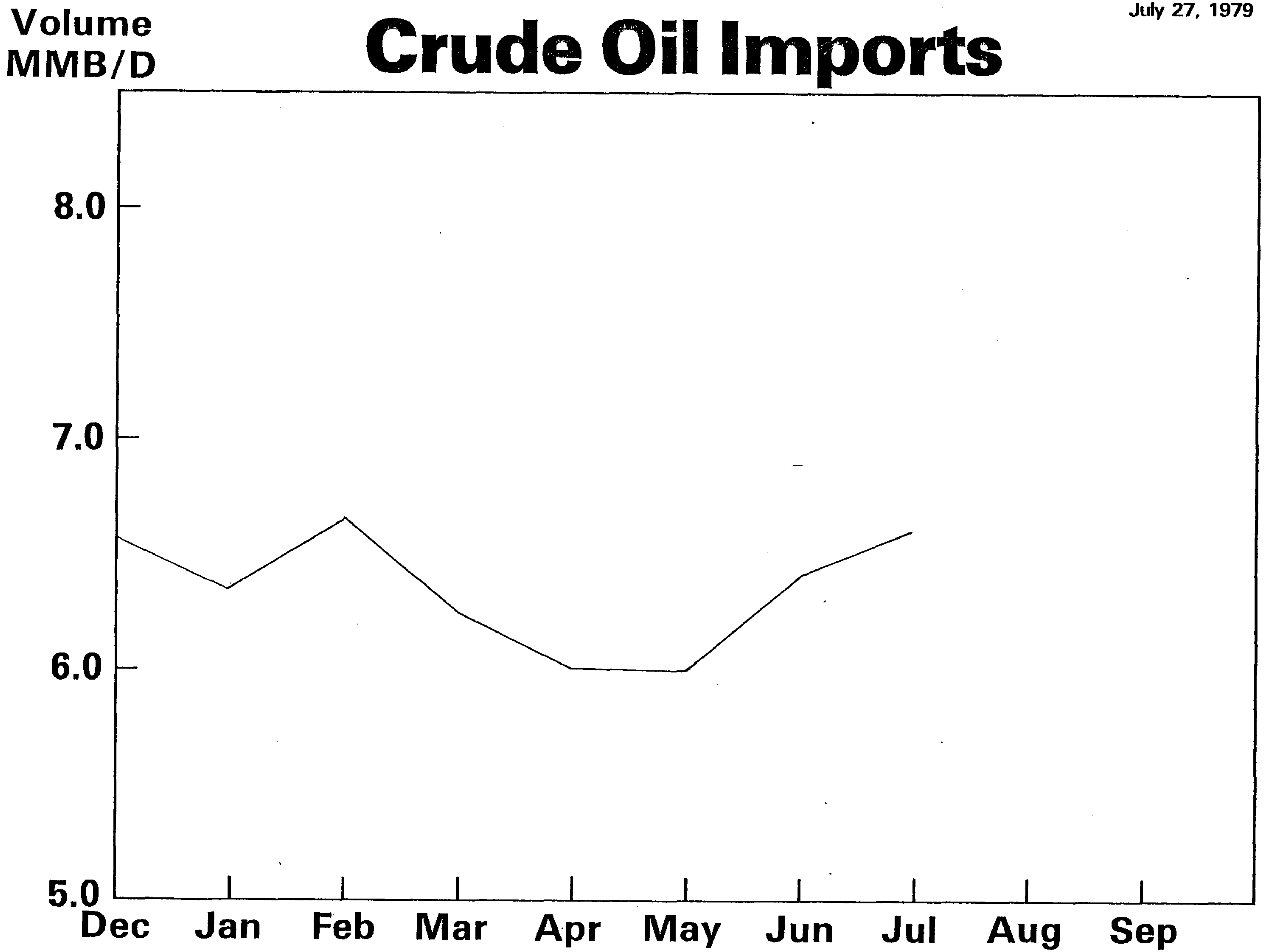
(1979 Dollars)



* With 2.4% Real World Oil Price Increases After 1978

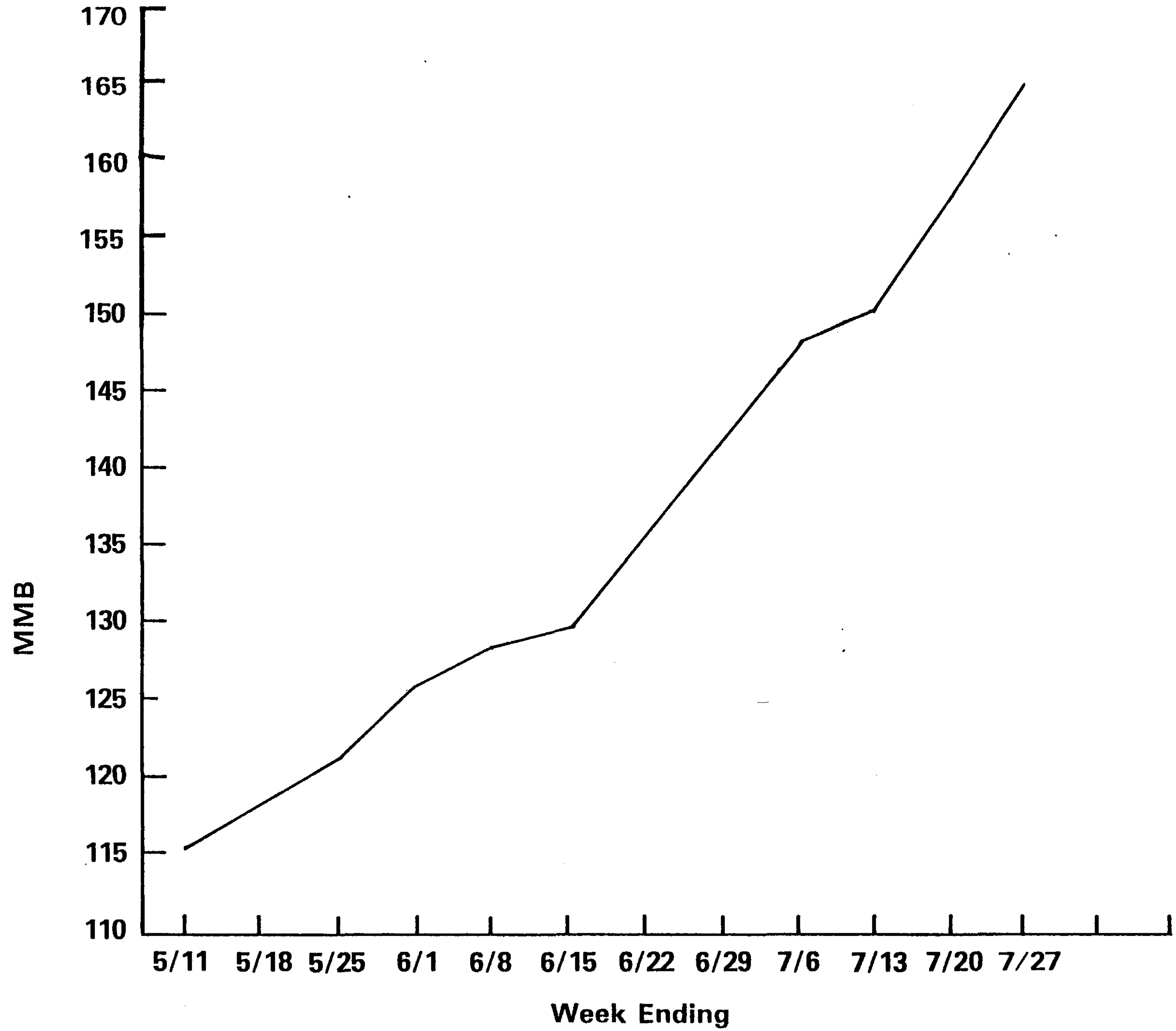
July 27, 1979

Crude Oil Imports



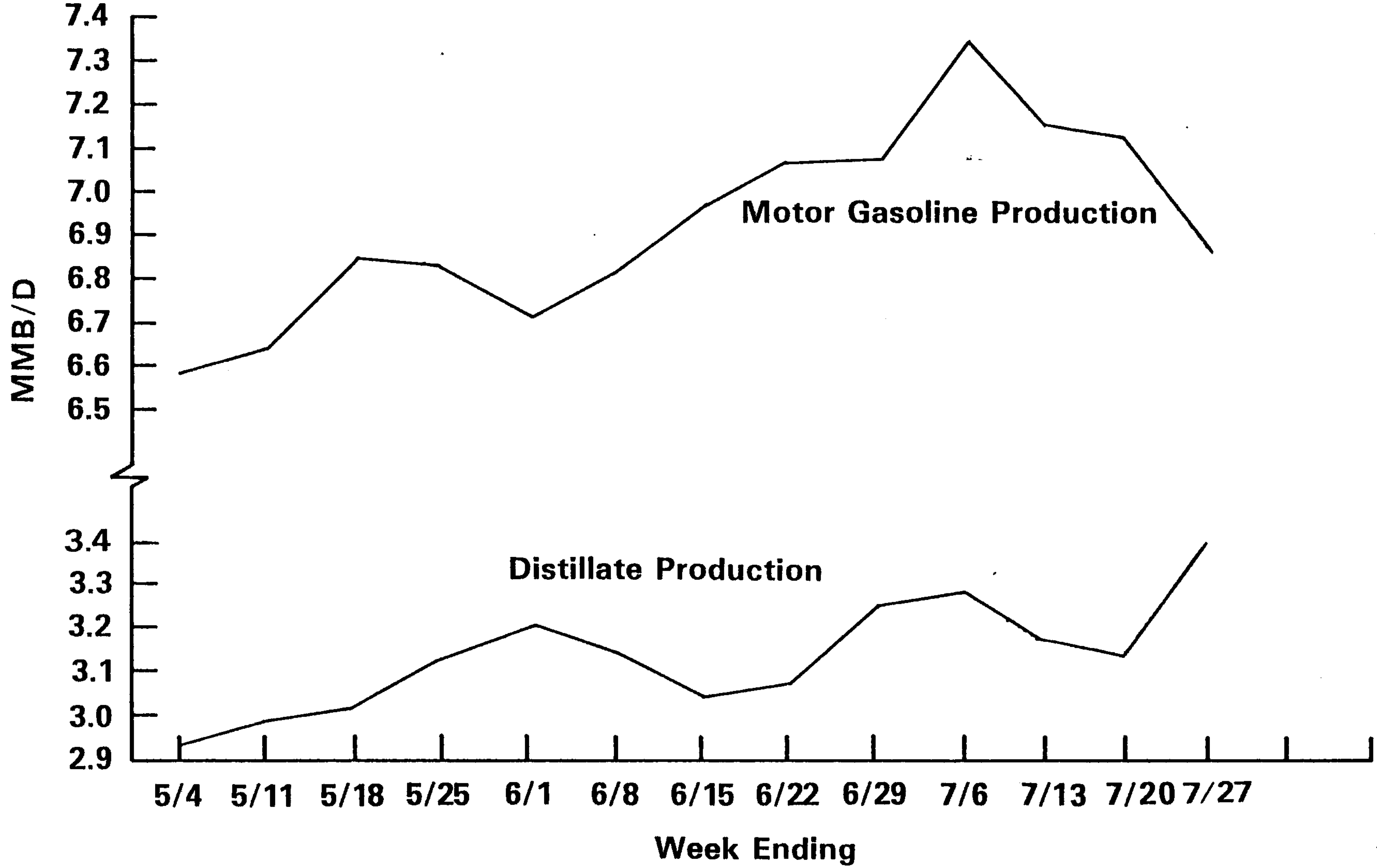
July 27, 1979

Distillate Stocks at Primary Levels



July 27, 1979

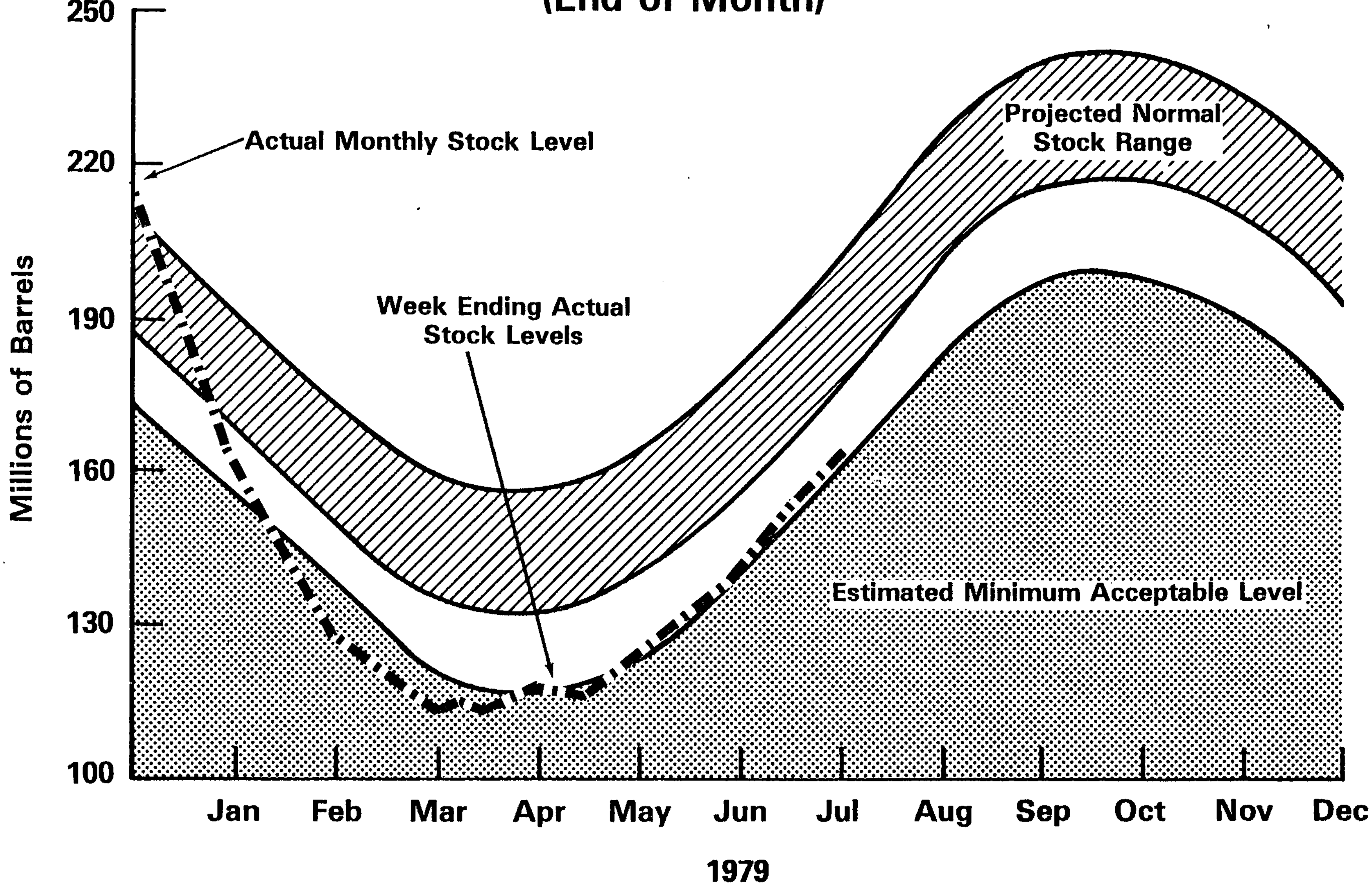
U.S. Refinery Output



July 27, 1979

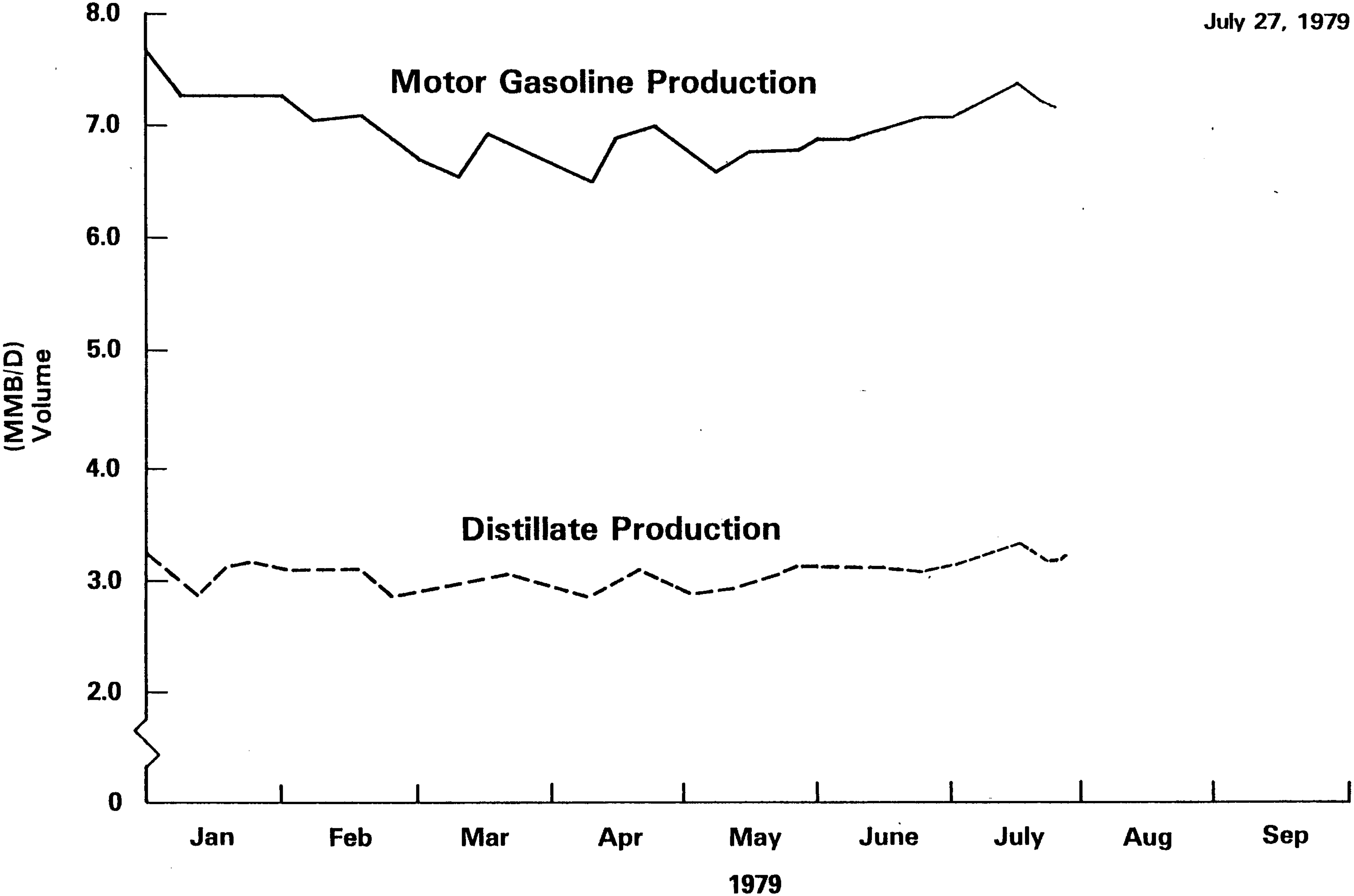
Distillate Stocks at Primary Level

(End of Month)



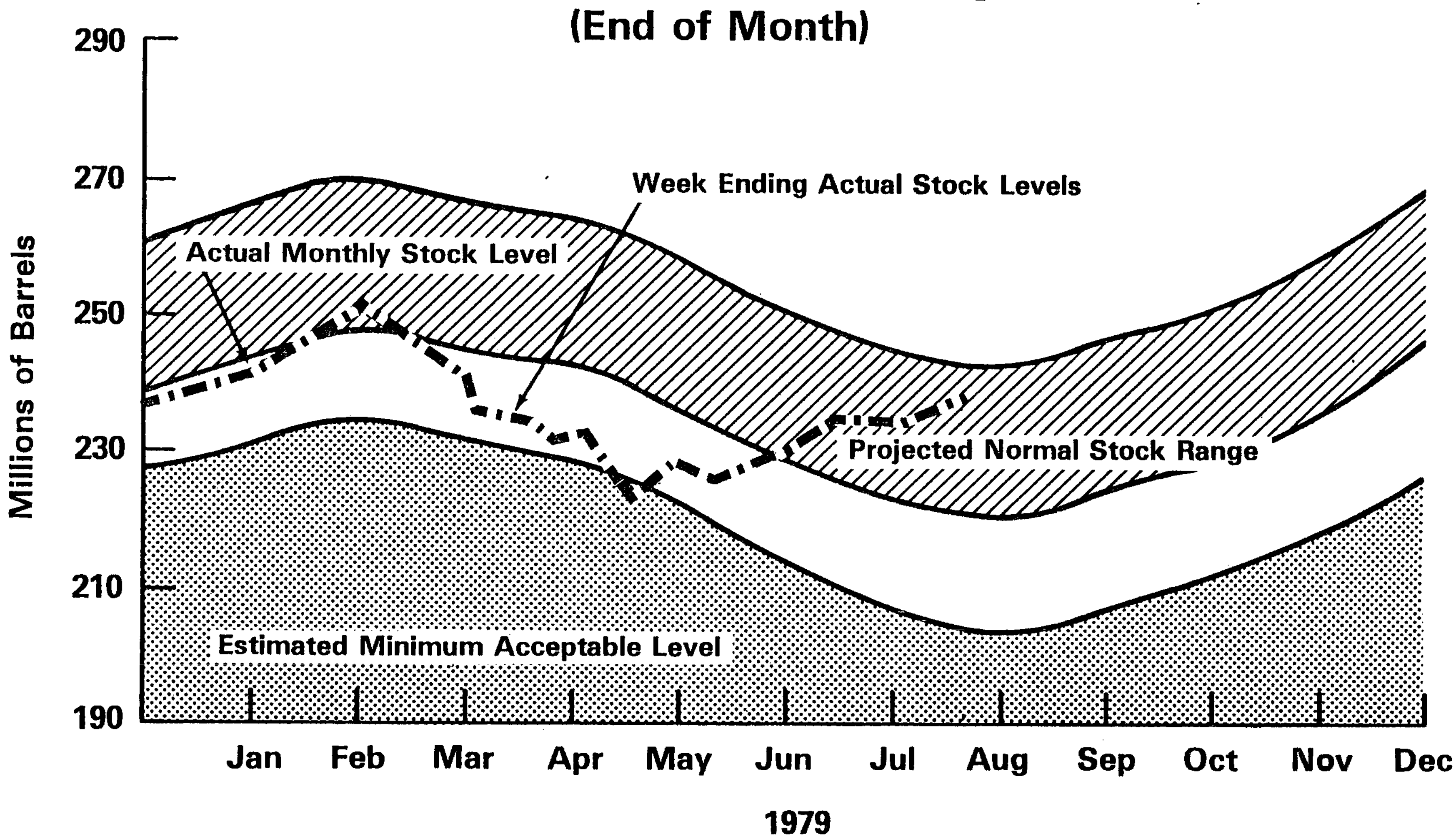
U.S. Refinery Output

July 27, 1979



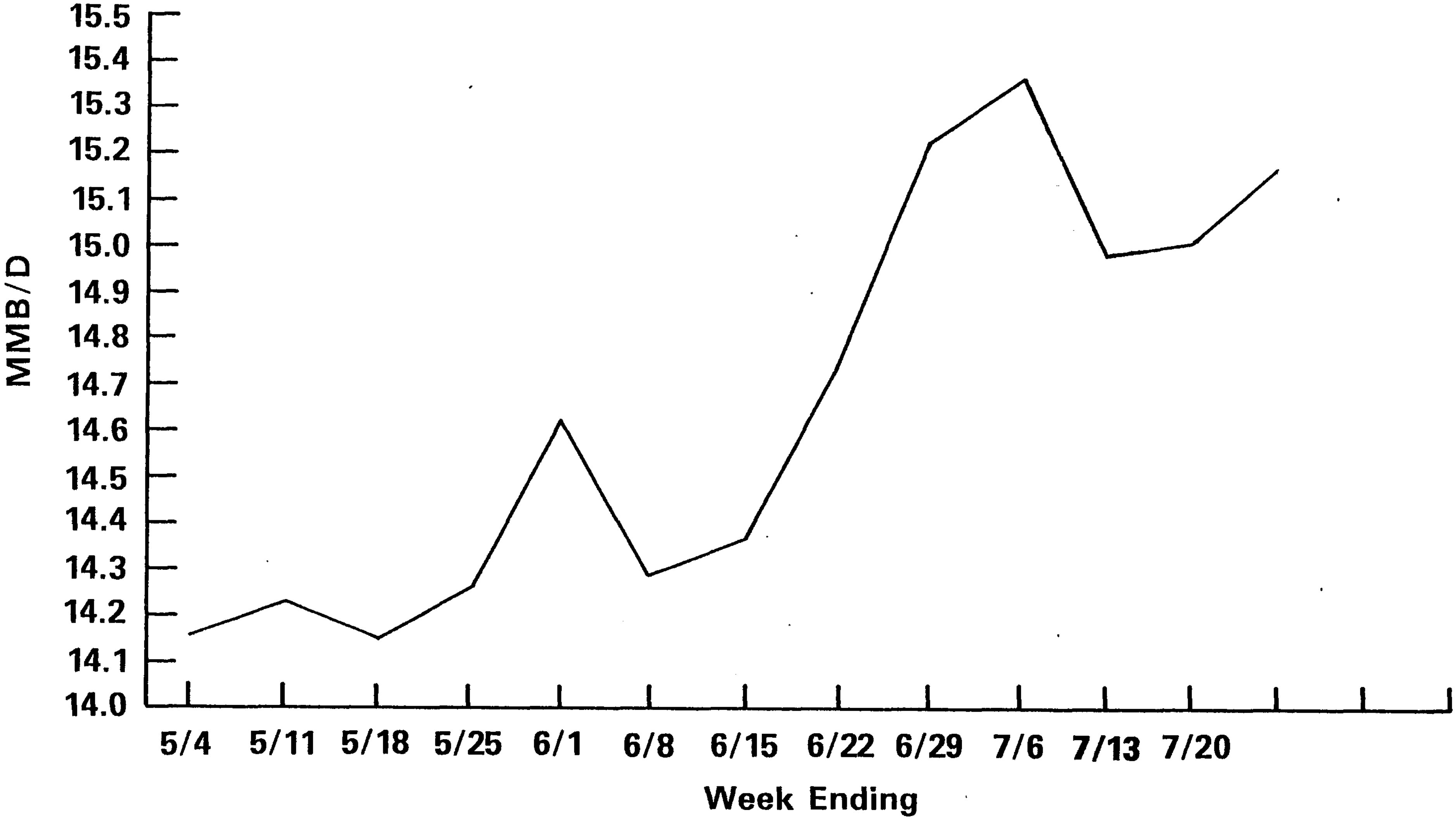
July 27, 1979

Gasoline Stocks at Primary Level

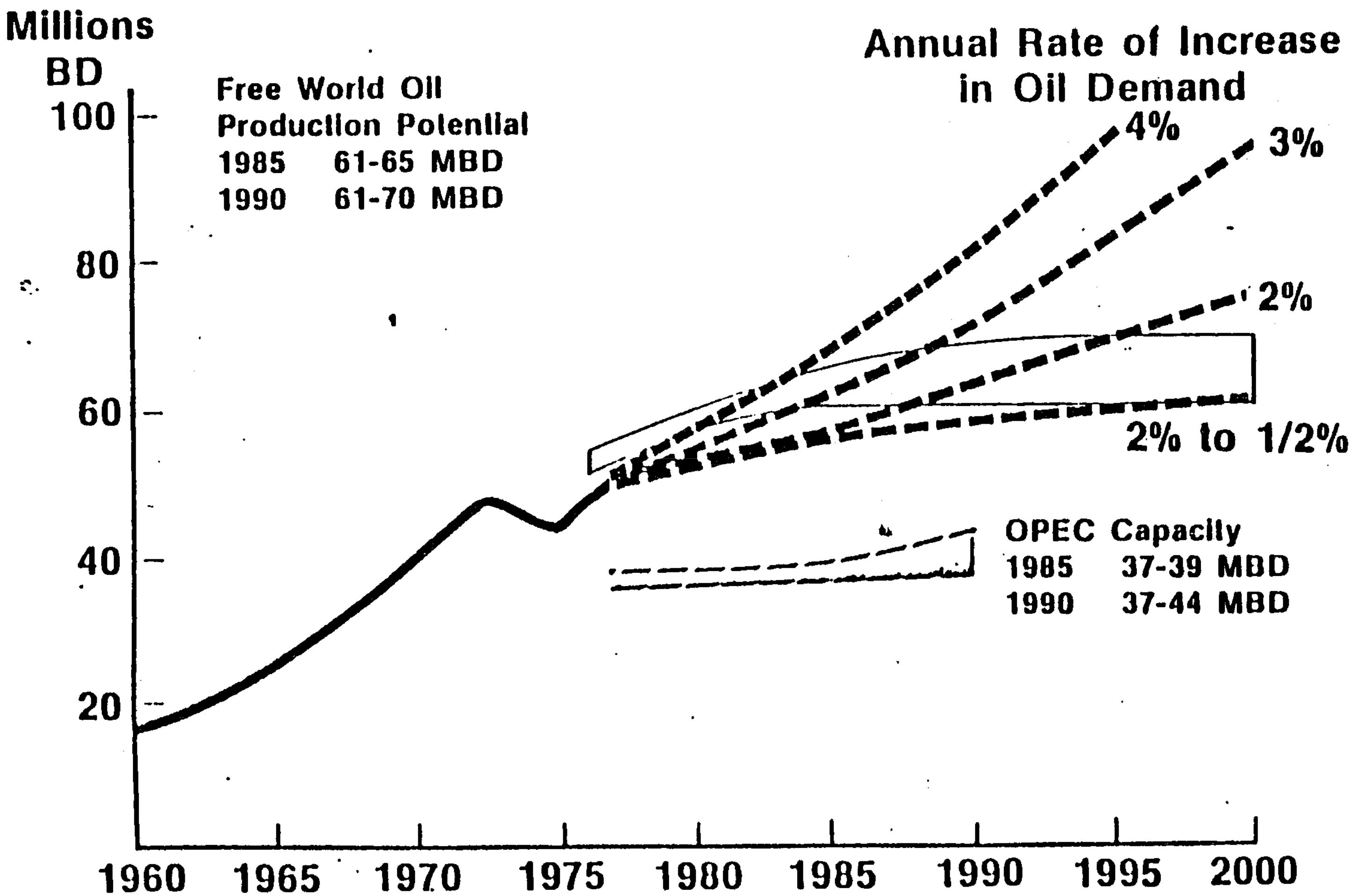


July 27, 1979

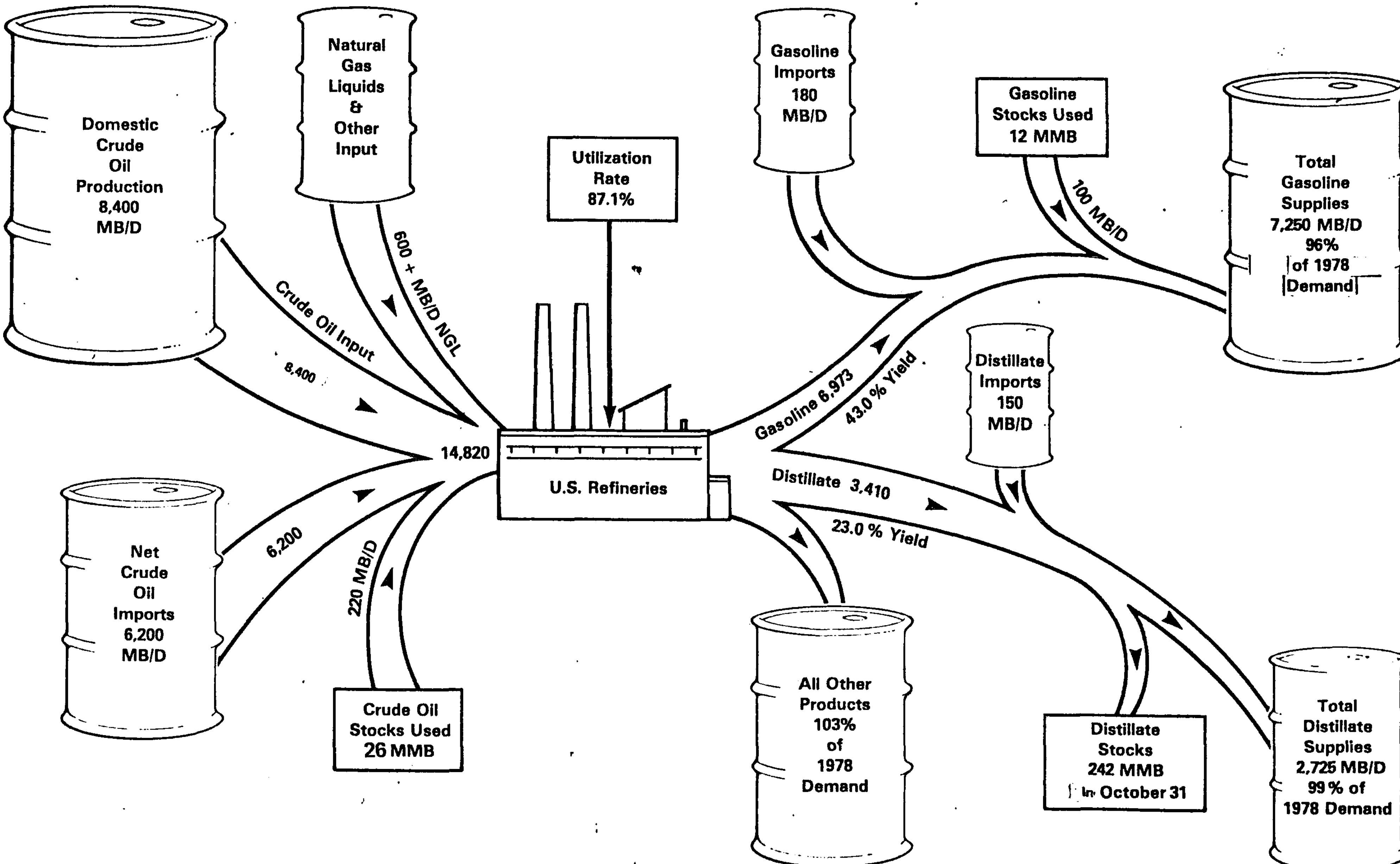
Crude Oil Runs To Distillation Units
U.S. Refineries



Free World Oil Demand and Production Potential

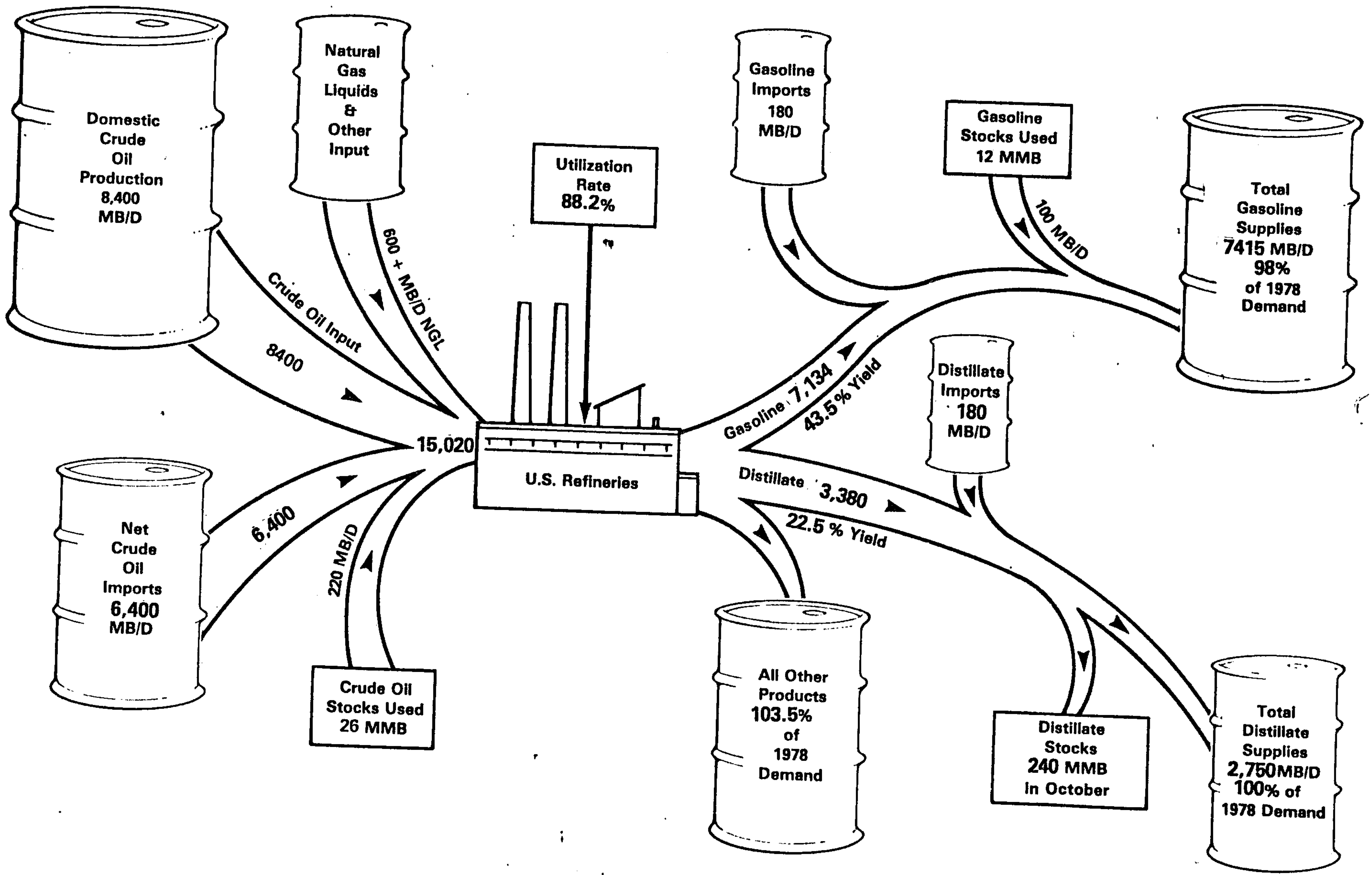


Case I Assumptions of Petroleum Supplies for July- October 1979



FY79-07853/1-1

Case II Assumptions of Petroleum Supplies for July- October 1979



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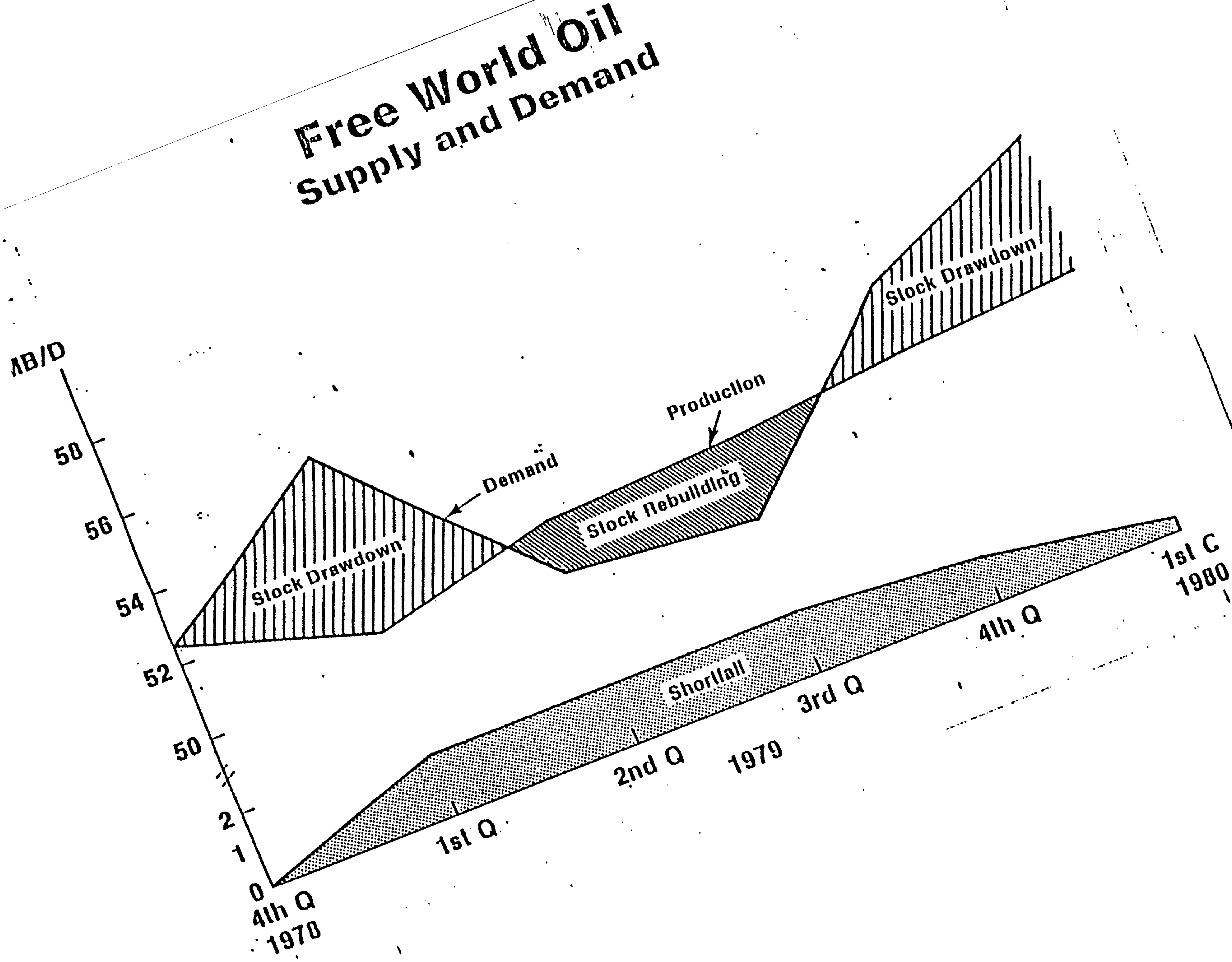
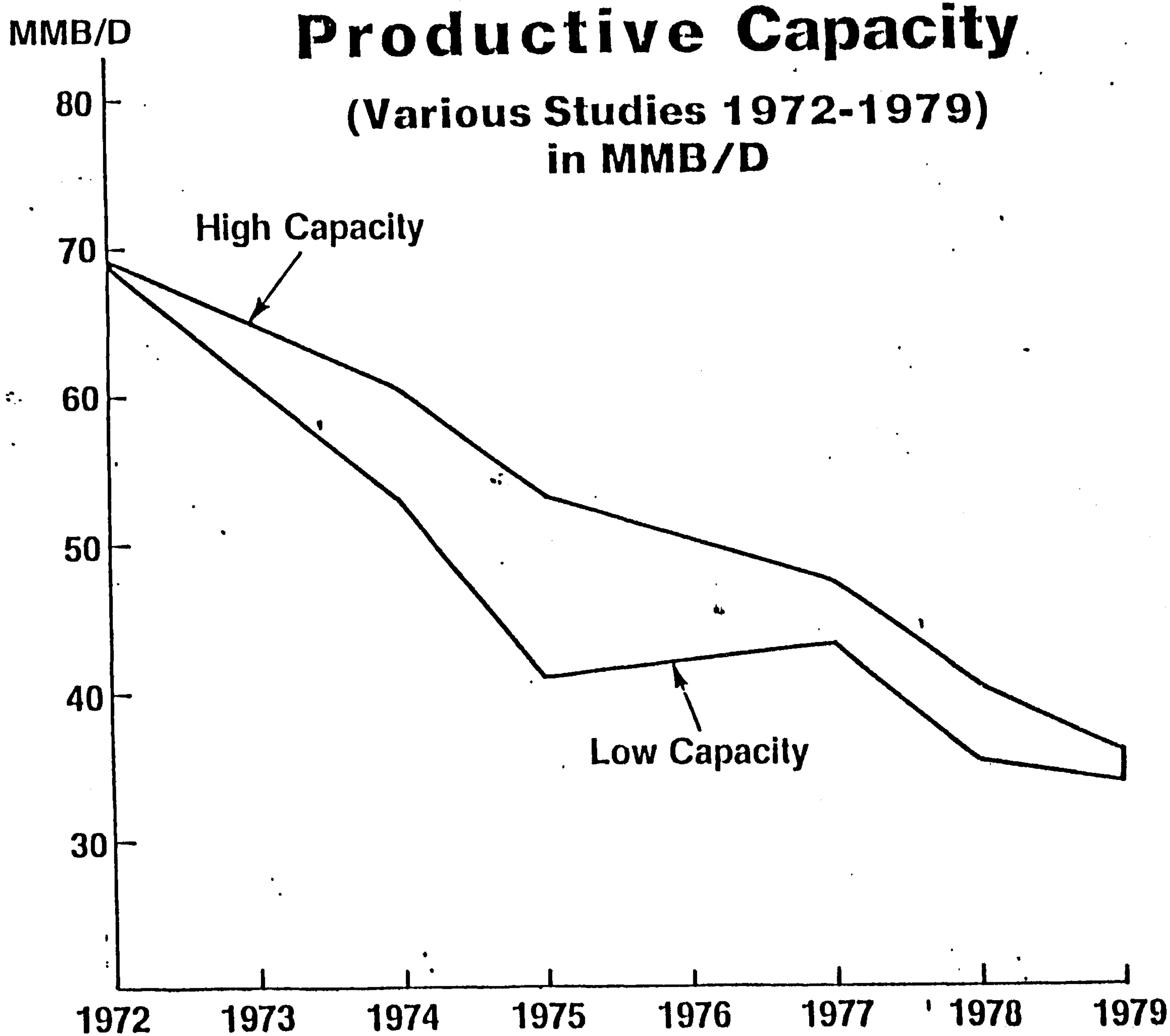
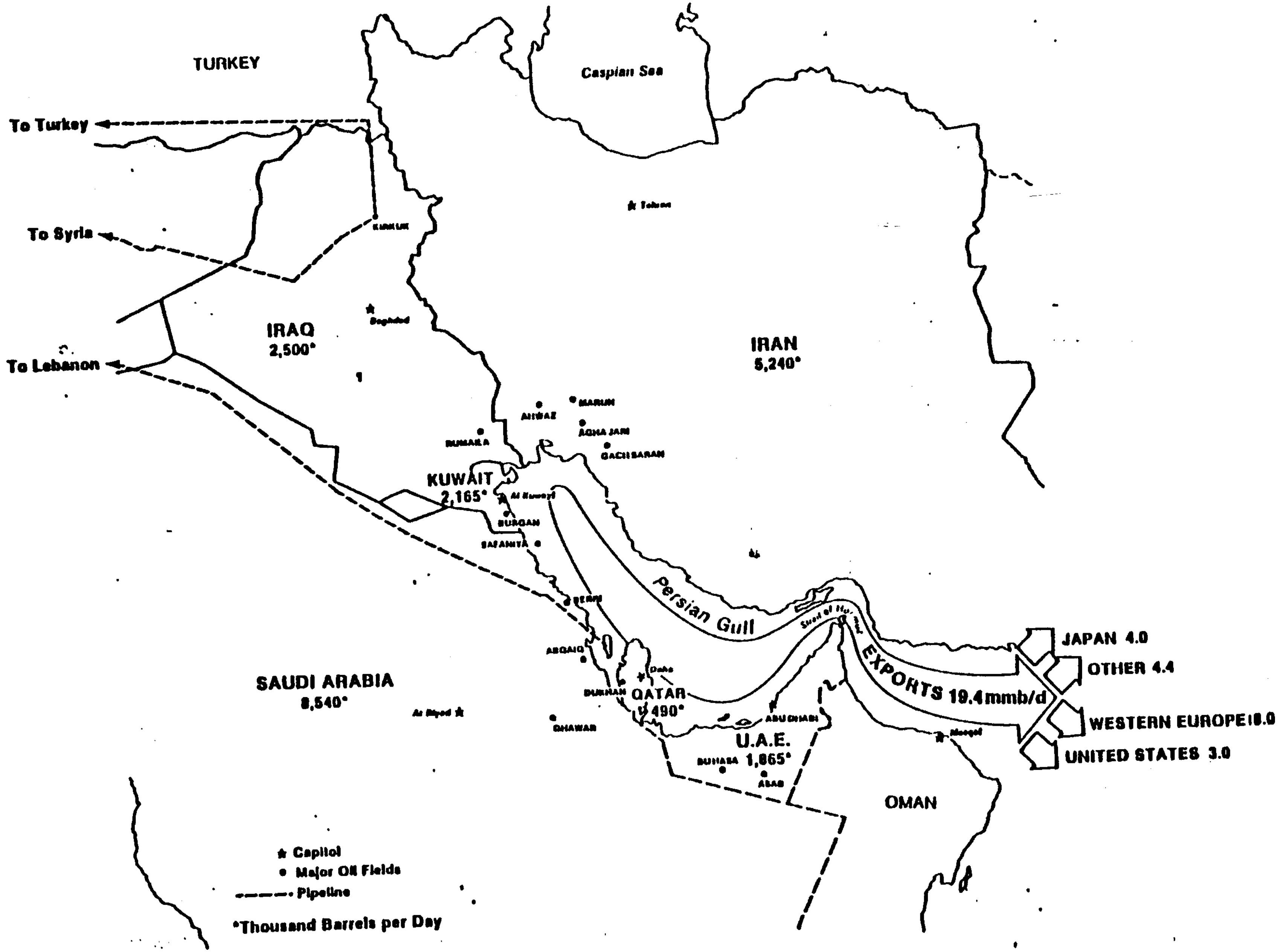


Free World Oil
Supply and Demand
MB/D
58
56
54
52
50
2
1
0
Demand
Production
Stock Drawdown
Stock Rebuilding
Stock Drawdown
Shortfall
4th Q
1978
1st Q
2nd Q
1979
3rd Q
4th Q
1st Q
1980

1985 Projections of OPEC Productive Capacity

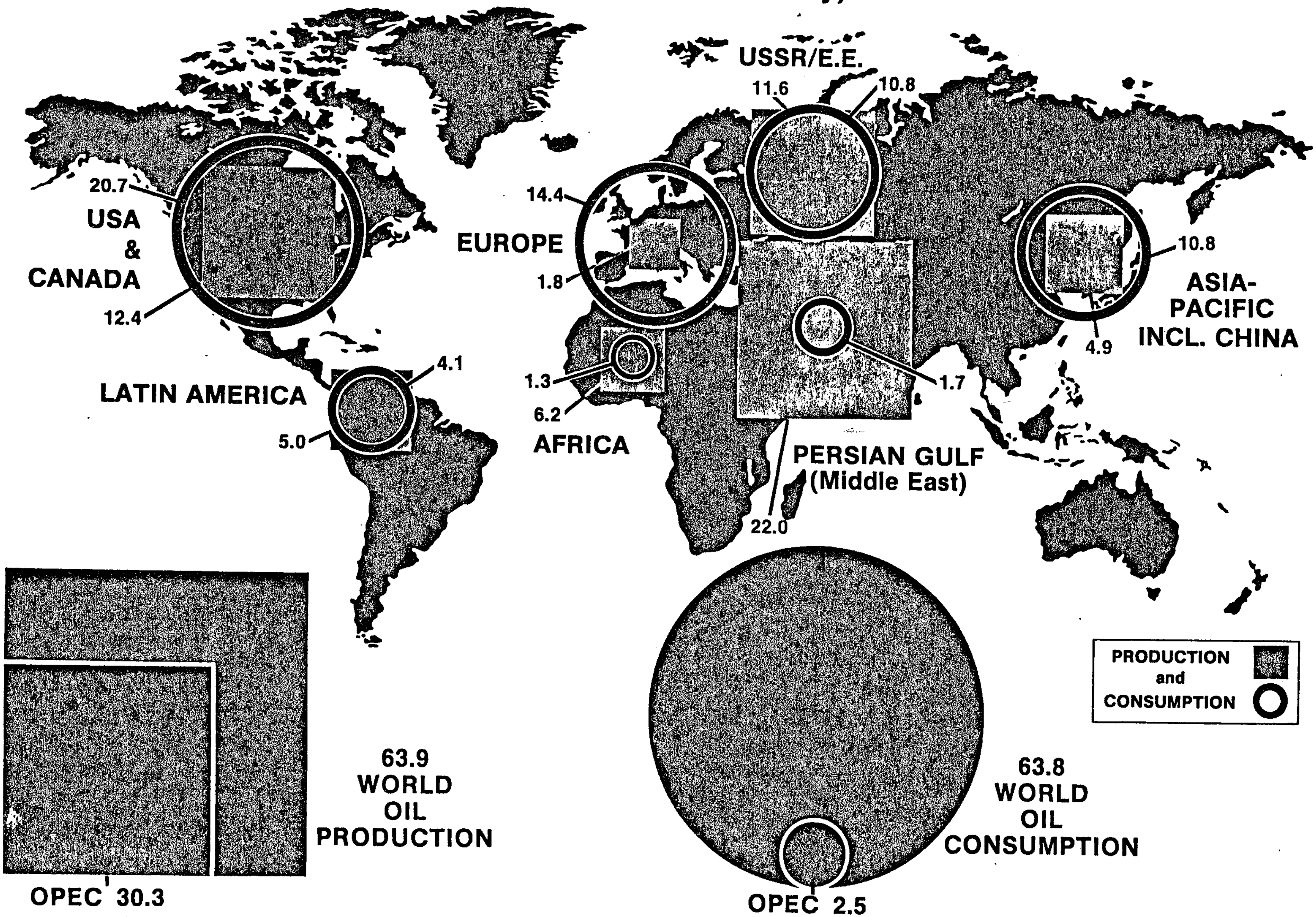


Persian Gulf Crude Oil Production and Exports 1978



WORLD PETROLEUM

Production and Consumption: 1978
(Million Barrels Per Day)



JAMES R. SCHLESINGER

SECRETARY OF ENERGY

STATEMENT BEFORE

THE

COMMITTEE ON ENERGY AND NATURAL RESOURCES

UNITED STATES SENATE

January 17, 1979

Senator Ford. Do we have a North American foreign policy as such? What I am saying is that we are so tied up with the Mid East and other things that we take the two countries to the north and south of us for granted and they seem to be sitting there with a source for us that could be -- have we taken it for granted and all of a sudden they can produce for us and we have no way to get under a North American foreign policy?

Secretary Schlesinger. I think on the contrary we are very sensitive to the attitudes of our neighbors. Some years ago, during the Nixon Administration, there was discussion of a continental energy policy. The Canadians found that quite offensive at the time and they have insisted that although we have a very, very cooperative relationship with the Canadians, that we always do things on pragmatic basis.

The term "continental energy policy" is a term they find offensive.

In the case of Mexico, there was great concern and I think appropriately that there not be the appearance of the -- the Washington Post had the headlines some weeks ago -- looking at Mexico as an oil rich country and they are quite concerned, given their experiences before 1938 about the perception of the United States seeming to move in to grab resources.

I think we should achieve a high level of cooperation and the point you are making is well taken, Senator, but I think to talk in terms of the North American policy or continental policy may not achieve the objective you have in mind.

Senator Church. Thank you Mr. Chairman. Mr. Secretary, it would seem to make sense to me that if we have extra gas available now that we use it. I will not quarrel with you about that point. If it is practical to do it, we ought to do it as quickly as we can.

I do not believe I quite understand the argument you made with respect to Mexican gas; because Mexican gas could be used to replace OPEC oil in the longer oil. If that is so, as I believe it to be, then would not our balance of payments be relatively unaffected? In other words, if the purchase of Mexican gas replaces the purchase of OPEC oil, why would its impact be adverse on our balance of payments?

Secretary Schlesinger. It could not. Indeed, a Mexican source of supply as opposed to, say, the Middle Eastern sources of supply, is beneficial with regard to the balance of payments even at equal prices, because the flowback of purchases from Mexico is greater than it is from the Middle East. There is no damage to the balance of payments, and it is probably beneficial.

Senator Chruch. Also from the standpoint of the security of our energy supplies, there would be benefits derived from sources closer to us than sources --

Secretary Schlesinger. Absolutely.

Senator Church. So the argument that I have heard made that you oppose the purchase of Mexican gas does not accord fully with the facts; is that right?

Secretary Schlesinger. That is correct. We would welcome Mexican gas. Aside from domestic production, pipeline gas from our neighbors in Mexico or Canada, appears to be the most attractive supplement and we would welcome it. I would think the price would have to be one that would obtain a share of the American market, and that is the source of concern with regard to the contract signed by the six companies.

Senator Church. Are negotiations going forward in hopes that we could arrive at at satisfactory price and enter into a contract with Mexico?

Secretary Schlesinger. I do not know whether "forward" is exactly the right term, Senator. I think there is an interest in negotiations on both sides; that all through 1977 there was an exchange of views by the American Government and the Mexican government.

At the end of 1977 the Mexican government suspended negotiations and allowed the prior contractual agreement to lapse. Both sides felt that it would be beneficial to wait until after passage of the natural-gas legislation before resuming discussion; but I think that on our side we would welcome that supplement. We would welcome it as long as it is priced in a way that we could competitively compete for a share of the industrial market in the United States, and it is reasonably, an assured supply.

Senator Church. Is it true that if the Mexicans cannot sell their natural gas this could have an adverse effect on the expansion of their oil fields? In other words, it is my understanding that the gas is intermixed with the oil, and therefore, if they can sell their gas, they can expand their oil production faster?

Secretary Schlesinger. It could have that effect, Senator. At this juncture, the planning by the Mexican government seems to be along the lines to decide on a prescribed level of oil production, and to use the associated gas, whatever the level of oil production might be. I would hope that the circumstances that you mentioned did not arise.

Senator Church. If I could just put on my other "hat" and talk about energy in connectin with foreign policy, it seems to me that the relationship between the United States and Mexico is fraught with so many problems. It is not only a challenge but, also, an alternative if we could seek to work out with the Mexican government a program that would assist the Mexican government in its own economic development, taking the pressure off of the present migration into the United States and work out arrangements for the purchase of Mexican gas.

The revenues from that source would certainly be helpful if properly directed towards providing much new employment for the Mexican people. If we could just work out a kind of package with the Mexicans to address the various problems that confront us, and include oil and gas in it, I think it would certainly serve our interests. If these other problems continue to go unattended we could face a very serious crisis with Mexico in the years to come.

I think now is the time to act; but within the context of such an overall approach to the various problems that exist today in our countries. Would you agree with that?

Secretary Schlesinger. Yes, sir. Just a cautionary note that we should not appear to be too aggressive in thrusting our planning on the Mexicans, and notably, in the area of the national patrimony. We should be as responsive to their desires and requests as we can be.

The Chairman. Would the Senator yield? I want to share your concern. It seems to me, Mr. Secretary, that as we would approach Mexico on a long-term arrangement, that arrangement would have to be different than is customary on a straight buyer-seller basis.

It seems to me that it does involve, and should involve, some cooperation on the part of our Government in terms of social and economic improvement for the people in Mexico. It is in that context, it seems to me, that we should approach the problem. Would you agree with that?

Secretary Schlesinger. Yes; but I think we must do it explicitly if we are to go on that basis; because otherwise, we may be in the position in which we agree, for example, to a high price for gas that destroys the possibility of an American market -- a substantial American market. If we do so, we do no favor to the Mexican government.

Senator Javits. Isn't it a fact that we are only importing 400,000 barrels a day from Mexico today?

Secretary Schlesinger. That is approximately correct. We are importing about 90 percent of Mexico's exports. We have repeatedly indicated that we are eager to be responsive to any Mexican initiative with regard to financing or technical assistance.

As the Chairman indicated earlier, there is sensitivity over the national patrimony in Mexico, and that as a consequence, we did not want to seem to be in a position of pushing the Mexicans but we are prepared to be of whatever assistance we can in raising that level of production. ....

We are eager to have not only Mexican gas, but Mexican oil, and irrespective of your questioning of our policies with regard to the pricing of gas, we have certainly been nothing but encouraging with regard to oil.

Whatever we say on that subject, we must recognize that the Mexicans have stated that they are concerned about the domestic impact of too rapid development in terms of its social implications. Those concerns have been reinforced by developments in Iran; they have indicated that they are prepared to go to something in the order of 2.2 million barrels a day by 1982.

JAMES R. SCHLESINGER

SECRETARY OF ENERGY

STATEMENT BEFORE

THE

COMMITTEE ON SCIENCE AND TECHNOLOGY

UNITED STATES HOUSE OF REPRESENTATIVES

February 8, 1979

Mr. Scheuer. Now, Mexico undoubtedly would like to sell her oil at $12.00 or $15.00 a barrel, but she has very strong development needs. If she brought her oil onstream and Iraq brought hers onstream and Venezuela did, despite the fact each one individually might like to get the present world price for oil, well, as a cumulative matter, the supply they bring on together would radically reduce the price supply structure.

Secretary Schlesinger. Any additional supply would tend to prevent or to militate for lower rather than higher prices.

Mr. Scheuer. That is correct.

Secretary Schlesinger. Or alleviate the increase in price depending on the circumstances. We are certainly eager to see all of these capacities develop.

In the case of Mexico, at the outset of this Administration, we discussed these matters. We offered any technical assistance that they would require on a quiet basis. We offered them whatever financial assistance we could provide, given the U.S. laws to which I will return in a moment.

We intervened with IMF which had imposed very stringent limits on loans to Mexico until such time as they had altered the domestic economic policy.

This was to get oil development as an exception to the limitation. Now, oil may be the cure, as it were of Mexico's balance of trade problems and to prevent the emergence of the cure -- this seems to be a nonsensical policy.

We intervened in that way. We also recognize a very high degree of sensitivity on the part of Mexico. This is both in general and reflecting the nationalization of 1938.

There are concerns about the national patrimony. We said, in effect, we were there to help in whatever way that they thought was appropriate in that development but we recognize that sensitivity.

We do not want to be obtrusive with regard to those developments. The program for developing Mexican oil looks like 2.2 or 2.5 million barrels a day early in the 1980's, maybe by 1982. That program seems to be moving along.

The pace of development will, of course, reflect the Mexican government policy.

STATEMENT

OF

JAMES R. SCHLESINGER

SECRETARY OF ENERGY

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

SUBCOMMITTEE ON ENERGY AND POWER

FEBRUARY 13, 1979

Mr. Leland. ...Mr. Secretary, I, too, join my colleagues to welcome you here. I, of course, welcome the opportunity to hear your responses to various questions. I would like to refer back to Mr. Moorhead's beginning statement or question concerning Mexico. Because I live on one of the bordering States of Mexico, I have various interests there. I would like to just ask you a couple of questions relative to our relationship there. I would like to find out how close are we to agreement with Mexico? I realize that the President is going to Mexico this week, hopefully to resolve some of the problems between us. I would like to find out exactly how close do you feel that we are to some kind of agreement with Mexico on the question of their energy resources?

Secretary Schlesinger. I think that some of the differences about price that existed a year ago have been diminished tacitly, if not explicitly. I trust that the President's visit to Mexico will lead to a meeting of the minds between him and President Lopez Portillo. It is in the interest of both countries that the gas be sold here. At this juncture five to six hundred million cubic feet a day of gas is being flared in Mexico. It is in the long-run interest of the United States and of Mexico that that gas be sold at a price that is competitive in the American market.

The original contract assigned for the gas would not have been competitive. That is a price now of $3.35, $3.40 per Mcf. I trust that we will be able to arrange a price that protects the Mexican equities, protects the Mexican interests.

STATEMENT

OF

JAMES R. SCHLESINGER

SECRETARY OF ENERGY

BEFORE THE

UNITED STATES SENATE

COMMITTEE ON GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON ENERGY AND NUCLEAR
PROLIFERATION AND FEDERAL SERVICES

WEDNESDAY, FEBRUARY 28, 1979

Senator Glenn. There are all sorts of foreign policy implications in this obviously if we move out and try to encourage other nations in their production. Do you see any of those as major hurdles to be overcome or do you think most of the nations will cooperate?

Secretary Schlesinger. I think that is an area that must be approached with great sensitivity that will depend upon the described country. Many countries in the world, as I mentioned, are deeply suspicious of our multinational companies. I think unwarrantedly suspicious, but that happens to be the reality and, therefore, if we seem to be in a position of urging them to go into association with the multinational, I think that we will harden resistance.

You mentioned Mexico earlier, Mr. Chairman. Mexico is in a unique position in that it has its own domestic company, its own monoply, which has a very high degree of technical capacity. Few countries in the world are in that favorable position.

STATEMENT

OF

JAMES R. SCHLESINGER

SECRETARY OF ENERGY

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON DEPARTMENT OF INTERIOR AND RELATED AGENCIES

MONDAY, APRIL 2, 1979

Mr. Yates. The relationship.

Secretary Schlesinger. --you have stated the relationships very well, and I think the objectives quite well.

I think that we subscribe to the goals that you have stated, and we are prepared to act on those goals. Let us deal with the issue of oil first.

Indeed, the Mexicans are very sensitive on the issue of the national patrimony, and that sensitivity has increased since 1938.

In January of 1977 we met with the Mexicans, with the knowledge that there were very substantial increases in reserves in Mexico, and indicated to them at the time that we recognize that sensitivity about the national patrimony, that we were prepared to provide whatever assistance we could that they desired, and that we would provide technical assistance and financial assistance.

Indeed, immediately we moved with the International Monetary Fund to strike down some of the restrictions that had been placed upon loans to Mexico to the extent that those loans went to the oil sector. .....

We can provide them with technical assistance of one sort or another. They hire it from American firms, but they have been unwilling to enter into contracts, let us say, with outside groups for drilling wells.

We would be prepared to facilitate such arrangements, if the Mexicans desire, but once again the Mexicans must have that desire. We can only press them so far.

We are parpared, if they should desire, to go into a government-to-government arrangement. The Mexicans have repeatedly indicated that they would prefer to deal with the private sector rather than with this Government. That is true in the natural gas area as well as in the oil.

STATEMENT

OF

JAMES R. SCHLESINGER

SECRETARY OF ENERGY

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON DEPARTMENT OF INTERIOR AND RELATED AGENCIES

MONDAY, APRIL 9, 1979

Mr. Ginn. What abut the reserves in Mexico? Do you think we will be able to work out something with them?

Secretary Schlesinger. We are taking something on the order of 80 percent of Mexico's exports. Mexico recognizes that we urge them to increase production as rapidly as possible. We have offered them financial and technical assistance in terms of developing their capacity.

The decision is one for themselves. They have a state monoply in Mexico. The state monopoly does not enter into partnership arrangements with the major international companies. We are eager to see them increase as rapidly, but that is not a source of salvation for the United States.

Mr. Ginn. Thank you.