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MASTER

CONGRESSIONAL BRIEFING BOOK

ON

THE PRESIDENTS ENERGY-ECONOMIC PROGRAM

FEDERAL ENERGY ADMINISTRATION WASHINGTON D.C.

TAB

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- Summary Paper (This paper includes a description of the rationing system, gasoline use, the problems with gasoline rationing and a comparison of gas rationing and the President's program.)

- WW II Rationing (This paper covers the gasoline rationing system used during WW II, its basic features, local boards, coupon flow back, gasoline price, volume, and the number of cars, the black market problem and other features of the program.)

- Washington Post Editorial "How to Ration Gasoline"

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J Section by Section Response to S. Res. 425 (S. Res. 425 was introduced by Senator Jackson in the 93rd Congress and calls for the establishment of a national energy program and outlines its basic points. This section compares the President's program with S. Res. 425.)

K Petroleum Import Fees: Report on Section 232 Investigation on Petroleum Imports. (This section contains a report to the President on petroleum imports and their impact on national security.)

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Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

Twenty-six years ago, a freshman Congressman, a young fellow, with lots of idealism who was out to change the world, stood before Speaker Sam Rayburn in the well of this House and solemnly swore to the same oath you took yesterday. That is an unforgettable experience, and I congratulate you all.

Two days later, that same freshman sat in the back row as President Truman, all charged up by his single-handed election victory, reported as the Constitution requires on the State of the Union.

When the bipartisan applause stopped, President Truman said:

"I am happy to report to this Eighty-first Congress that the State of the Union is good. Our Nation is better able than ever before to meet the needs of the American people and to give them their fair chance in the pursuit of happiness. It is foremost among the nations of the world in the search for peace."

Today, that freshman Member from Michigan stands where Mr. Truman stood and I must say to you that the State of the Union is not good.

Millions of Americans are out of work. Recession and inflation are eroding the money of millions more. Prices are too high and sales are too slow.

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This year's Federal deficit will be about $30 billion; next year's probably $45 billion. The national debt will rise to over $600 billion.

Our plant capacity and productivity are not increasing fast enough. We depend on others for essential energy.

Some people question their government's ability to make the hard decisions and stick with them. They expect Washington politics as usual.

Yet, what President Truman said on January 5, 1949, is even more true in 1975.

We are better able to meet the peoples' needs.

All Americans do have a fairer chance to pursue happiness. Not only are we still the foremost nation in pursuit of peace, but today's prospects of attaining it are infinitely brighter.

There were 59,000,000 Americans employed at the start of 1949. Now there are more than 85,000,000 Americans who have jobs. In comparable dollars, the average income of the American family has doubled during the past 26 years.

Now, I want to speak very bluntly. I've got bad news, and I don't expect any applause. The American people want action and it will take both the Congress and the President to give them what they want. Progress and solutions can be achieved. And they will be achieved.

My message today is not intended to address all the complex needs of America. I will send separate messages making specific recommendations for domestic legislation, such as General Revenue Sharing and the extension of the Voting Rights Act.

The moment has come to move in a new direction. We can do this by fashioning a new partnership between the Congress, the White House and the people we both represent.

Let us mobilize the most powerful and creative industrial nation that ever existed on this earth to put all our people to work. The emphasis of our economic efforts must now shift from inflation to jobs.

To bolster business and industry and to create new jobs, I propose a one-year tax reduction of $16 billion. Three-quarters would go to individuals and one-quarter to promote business investment.

This cash rebate to individuals amounts to 12 percent of 1974 tax payments -- a total cut of $12 billion, with a maximum of $1,000 per return.

I call today on the Congress to act by April 1. If you do, the Treasury can send the first check for half the rebate in May and the second by September.

The other one-fourth of the cut, about $4 billion, will go to businesses, including farms, to promote expansion and create more jobs. The one-year reduction for businesses would be in the form of a liberalized investment tax credit increasing the rate to 12 percent for all businesses.

This tax cut does not include the more fundamental reforms needed in our tax system. But it points us in the right direction -- allowing us as taxpayers rather than the Government to spend our pay.

Cutting taxes, now, is essential if we are to turn the economy around. A tax cut offers the best hope of creating more jobs. Unfortunately, it will increase the size of the budget deficit. Therefore, it is more important than ever that we take steps to control the growth of Federal expenditures.

Part of our trouble is that we have been self-indulgent. For decades, we have been voting ever-increasing levels of Government benefits -- and now the bill has come due. We have been adding so many new programs that the size and growth of the Federal budget has taken on a life of its own.

One characteristic of these programs is that their cost increases automatically every year because the number of people eligible for most of these benefits increases every year. When these programs are enacted, there is no dollar amount set. No one knows what they will cost. All we know is that whatever they cost last year, they will cost more next year.

It is a question of simple arithmetic. Unless we check the excessive growth of Federal expenditures or impose on ourselves matching increases in taxes, we will continue to run huge inflationary deficits in the Federal budget.

If we project the current built-in momentum of Federal spending through the next 15 years, Federal, State, and local government expenditures could easily comprise half of our gross national product. This compares with less than a third in 1975.

I am now in the process of preparing the budget submissions for fiscal year 1976. In that budget, I will propose legislation to restrain the growth of a number of existing programs. I have also concluded that no new spending programs can be initiated this year, except those for energy. Further, I will not hesitate to veto any new spending programs adopted by the Congress.

As an additional step toward putting the Federal government's house in order, I recommend a five percent limit on Federal pay increases in 1975. In all Government programs tied to the consumer price index -- including social security, civil service and military retirement pay, and food stamps -- I also propose a one-year maximum increase of 5 percent.

None of these recommended ceiling limitations, over which the Congress has final authority, are easy to propose, because in most cases they involve anticipated payments to many deserving people. Nonetheless, it must be done. I must emphasize that I am not asking you to eliminate, reduce or freeze these payments. I am merely recommending that we slow down the rate at which these payments increase and these programs grow.

Only a reduction in the growth in spending can keep Federal borrowing down and reduce the damage to the private sector from high interest rates. Only a reduction in spending can make it possible for the Federal Reserve System to avoid an inflationary growth in the money supply and thus restore balance to our economy. A major reduction in the growth of Federal spending can help to dispel the uncertainty that so many feel about our economy, and put us on the way to curing our economic ills.

If we do not act to slow down the rate of increase in Federal spending, the United States Treasury will be legally obligated to spend more than $360 billion in Fiscal Year 1976 -- even if no new programs are enacted. These are not matters of conjecture or prediction, but again of simple arithmetic. The size of these numbers and their implications for our everyday life and the health of our economic system are shocking.

I submitted to the last Congress a list of budget deferrals and recisions. There will be more cuts recommended in the budget I will submit. Even so, the level of outlays for fiscal year 1976 is still much too high. Not only is it too high for this year but the decisions we make now inevitably have a major and growing impact on expenditure levels in future years. This is a fundamental issue we must jointly solve.

The economic disruption we and others are experiencing stems in part from the fact that the world price of petroleum has quadrupled in the last year. But we cannot put all of the blame on the oil-exporting nations. We in the United States are not blameless. Our growing dependence upon foreign sources has been adding to our vulnerability for years and we did nothing to prepare ourselves for an event such as the embargo of 1973.

During the 1960s, this country had a surplus capacity of crude oil, which we were able to make available to our trading partners whenever there was a disruption of supply. This surplus capacity enabled us to influence both supplies and prices of crude oil throughout the world. Our excess capacity neutralized any effort at establishing an effective cartel, and thus the rest of the world was assured of adequate supplies of oil at reasonable prices.

In the 1960s, our surplus capacity vanished and, as a consequence, the latent power of the oil cartel could emerge in full force. Europe and Japan, both heavily dependent on imported oil, now struggle to keep their economies in balance. Even the United States, which is far more self-sufficient than most other industrial countries, has been put under serious pressure.

I am proposing a program which will begin to restore our country's surplus capacity in total energy. In this way, we will be able to assure ourselves reliable and adequate energy and help foster a new world energy stability for other major consuming nations.

But this Nation and, in fact, the world must face the prospect of energy difficulties between now and 1985. This program will impose burdens on all of us with the aim of reducing our consumption of energy and increasing production. Great attention has been paid to considerations of fairness and I can assure you that the burdens will not fall more harshly on those less able to bear them.

I am recommending a plan to make us invulnerable to cut-offs of foreign oil. It will require sacrifices. But it will work.

I have set the following national energy goals to assure that our future is as secure and productive as our past:

-- First, we must reduce oil imports by 1 million barrels per day by the end of this year and by 2 million barrels per day by the end of 1977.

-- Second, we must end vulnerability to economic disruption by foreign suppliers by 1985.

-- Third, we must develop our energy technology and resources so that the United States has the ability to supply a significant share of the energy needs of the Free World by the end of this century.

To attain these objectives, we need immediate action to cut imports. Unfortunately, in the short-term there are only a limited number of actions which can increase domestic supply. I will press for all of them.

I urge quick action on legislation to allow commercial production at the Elk Hills, California, Naval Petroleum Reserve. In order that we make greater use of domestic coal resources, I am submitting amendments to the Energy Supply and Environmental Coordination Act which will greatly increase the number of power plants that can be promptly converted to coal.

Voluntary conservation continues to be essential, but tougher programs are also needed -- and needed now. Therefore, I am using Presidential powers to raise the fee on all imported crude oil and petroleum products. Crude oil fee levels will be increased $1 per barrel on February 1, by $2 per barrel on March 1 and by $3 per barrel on April 1. I will take action to reduce undue hardship on any geographical region. The foregoing are interim administrative actions. They will be rescinded when the necessary legislation is enacted.

To that end, I am requesting the Congress to act within 90 days on a more comprehensive energy tax program. It includes:

-- Excise taxes and import fees totalling $2 per barrel on product imports and on all crude oil.

-- Deregulation of new natural gas and enactment of a natural gas excise tax.

-- Enactment of a windfall profits tax by April 1 to ensure that oil producers do not profit unduly. At the same time I plan to take Presidential initiative to decontrol the price of domestic crude oil on April 1.

The sooner Congress acts, the more effective the oil conservation program will be and the quicker the Federal revenues can be returned to our people.

I am prepared to use Presidential authority to limit imports, as necessary, to assure the success of this program.

I want you to know that before deciding on my energy conservation program, I considered rationing and higher gasoline taxes as alternatives. Neither would achieve the desired results and both would produce unacceptable inequities.

A massive program must be initiated to increase energy supply, cut demand and provide new standby emergency programs to achieve the independence we want by 1985. The largest part of increased oil production must come from new frontier areas on the Outer Continental Shelf and from the Naval Petroleum Reserve No. 4 in Alaska. It is the intention of this Administration to move ahead with exploration, leasing and production on those frontier areas of the Outer Continental Shelf where the environmental risks are acceptable.

Use of our most abundant domestic resource -- coal -- is severely limited. We must strike a reasonable compromise on environmental concerns with coal. I am submitting Clean Air Act amendments which will allow greater coal use without sacrificing our clean air goals.

I vetoed the strip mining legislation passed by the last Congress. With appropriate changes, I will sign a revised version into law.

I am proposing a number of actions to energize our nuclear power program. I will submit legislation to expedite nuclear licensing and the rapid selection of sites.

In recent months, utilities have cancelled or postponed over 60 percent of planned nuclear expansion and 30 percent of planned additions to non-nuclear capacity. Financing problems for that industry are growing worse. I am therefore recommending that the one year investment tax credit of 12 percent be extended an additional two years to specifically speed the construction of power plants that do not use natural gas or oil. I am also submitting proposals for selective changes in State utility commission regulations.

To provide the critical stability for our domestic energy production in the face of world price uncertainty, I will request legislation to authorize and require tariffs, import quotas or price floors to protect our energy prices at levels which will achieve energy independence.

Increasing energy supplies is not enough. We must also take additional steps to cut long-term consumption. I therefore propose:

-- Legislation to make thermal efficiency standards mandatory for all new buildings in the United States. These standards would be set after appropriate consultation with architects, builders and labor.

-- A new tax credit of up to $150 for those home owners who install insulation equipment.

-- The establishment of an energy conservation program to help low income families purchase insulation supplies.

-- Legislation to modify and defer automotive pollution standards for 5 years to enable us to improve new automobile gas mileage 40 percent by 1980.

These proposals and actions, cumulatively, can reduce our dependence on foreign energy supplies to 3-5 million barrels per day by 1985. To make the United States invulnerable to foreign disruption, I propose standby emergency legislation and a strategic storage program of 1 billion barrels of oil for domestic needs and 300 million barrels for defense purposes.

I will ask for the funds needed for energy research and development activities. I have established a goal of 1 million barrels of synthetic fuels and shale oil production per day by 1985 together with an incentive program to achieve it.

I believe in America's capabilities. Within the next ten years, my program envisions:

-- 200 major nuclear power plants,

-- 250 major new coal mines,

-- 150 major coal-fired power plants,

-- 30 major new oil refineries,

-- 20 major new synthetic fuel plants,

-- the drilling of many thousands of new oil wells,

-- the insulation of 18 million homes,

-- and construction of millions of new automobiles, trucks and buses that use much less fuel.

We can do it. In another crisis -- the one in 1942 -- President Franklin D. Roosevelt said this country would build 60,000 aircraft. By 1943, production had reached 125,000 airplanes annually.

If the Congress and the American people will work with me to attain these targets, they will be achieved and surpassed.

From adversity, let us seize opportunity. Revenues of some $30 billion from higher energy taxes designed to encourage conservation must be refunded to the American people in a manner which corrects distortions in our tax system wrought by inflation.

People have been pushed into higher tax brackets by inflation with a consequent reduction in their actual spending power. Business taxes are similarly distorted because inflation exaggerates reported profits resulting in excessive taxes.

Accordingly, I propose that future individual income taxes be reduced by $16.5 billion. This will be done by raising the low income allowance and reducing tax rates. This continuing tax cut will primarily benefit lower and middle income taxpayers.

For example, a typical family of four with a gross income of $5,600 now pays $185 in Federal income taxes. Under this tax cut plan, they would pay nothing. A family of four with a gross income of $12,500 now pays $1,260 in Federal taxes. My plan reduces that by $300. Families grossing $20,000 would receive a reduction of $210.

Those with the very lowest incomes, who can least afford higher costs, must also be compensated. I propose a payment of $80 to every person 18 years of age and older in that category.

State and local governments will receive $2 billion in additional revenue sharing to offset their increased energy costs.

To offset inflationary distortions and to generate more economic activity, the corporate tax rate will be reduced from 48 percent to 42 percent.

Now, let me turn to the international dimension of the present crisis. At no time in our peacetime history has the state of the Nation depended more heavily on the state of the world. And seldom if ever has the state of the world depended more heavily on the state of our Nation.

The economic distress is global. We will not solve it at home unless we help to remedy the profound economic dislocation abroad. World trade and monetary structure provides markets, energy, food and vital raw materials -- for all nations. This international system is now in jeopardy.

This Nation can be proud of significant achievements in recent years in solving problems and crises. The Berlin Agreement, the SALT agreements, our new relationship with China, the unprecedented efforts in the Middle East -- are immensely encouraging. But the world is not free from crisis. In a world of 150 nations, where nuclear technology is proliferating and regional conflicts continue, international security cannot be taken for granted.

So let there be no mistake about it: international cooperation is a vital fact of our lives today. This is not a moment for the American people to turn inward. More than ever before, our own well-being depends on America's determination and leadership in the world.

We are a great Nation -- spiritually, politically, militarily, diplomatically and economically. America's commitment to international security has sustained the safety of allies and friends in many areas -- in the Middle East, in Europe, in Asia. Our turning away would unleash new instabilities and dangers around the globe which would, in turn, threaten our own security.

At the end of World War II, we turned a similar challenge into an historic achievement. An old order was in disarray; political and economic institutions were shattered. In that period, this Nation and its partners built new institutions, new mechanisms of mutual support and cooperation. Today, as then, we face an historic opportunity. If we act, imaginatively and boldly, as we acted then, this period will in retrospect be seen as one of the great creative moments of our history.

The whole world is watching to see how we respond.

A resurgent American economy would do more to restore the confidence of the world in its own future than anything else we can do. The program that this Congress will pass can demonstrate to the world that we have started to put our own house in order. It can show that this Nation is able and willing to help other nations meet the common challenge. It can demonstrate that the United States will fulfill its responsibility as a leader among nations.

At stake is the future of the industrialized democracies, which have perceived their destiny in common and sustained it in common for 30 years.

The developing nations are also at a turning point. The poorest nations see their hopes of feeding their hungry and developing their societies shattered by the economic crisis. The long-term economic future for the producers of raw materials also depends on cooperative solutions.

Our relations with the Communist countries are a basic factor of the world environment. We must seek to build a long-term basis for coexistence. We will stand by our principles and our interests; we will act firmly when challenged. The kind of world we want depends on a broad policy of creating mutual incentives for restraint and for cooperation.

As we move forward to meet our global challenges and opportunities, we must have the tools to do the job.

Our military forces are strong and ready. This military strength deters aggression against our allies, stabilizes our relations with former adversaries and protects our homeland. Fully adequate conventional and strategic forces cost many billions, but these dollars are sound insurance for our safety and a more peaceful world.

Military strength alone is not sufficient. Effective diplomacy is also essential in preventing conflict and building world understanding. The Vladivostok negotiations with the Soviet Union represent a major step in moderating strategic arms competition. My recent discussions with leaders of the Atlantic Community, Japan and South Korea have contributed to our meeting the common challenge.

But we have serious problems before us that require cooperation between the President and the Congress. By the Constitution and tradition, the execution of foreign policy is the responsibility of the President.

In recent years, under the stress of the Vietnam War, legislative restrictions on the President's capability to execute foreign and military decisions have proliferated. As a member of the Congress, I opposed some and approved others. As President, I welcome the advice and cooperation of the House and Senate.

But, if our foreign policy is to be successful we cannot rigidly restrict in legislation the ability of the President to act. The conduct of negotiations is ill suited to such limitations. For my part, I pledge this Administration will act in the closest consultations with the Congress as we face delicate situations and troubled times throughout the globe.

When I became President only five months ago, I promised the last Congress a policy of communication, conciliation, compromise and cooperation. I renew that pledge to the new members of this Congress.

To sum up:

America needs a new direction which I have sought to chart here today -- a change of course which will:

-- put the unemployed back to work;

-- increase real income and production;

-- restrain the growth of government spending;

-- achieve energy independence; and

-- advance the cause of world understanding.

We have the ability. We have the know-how. In partnership with the American people, we will achieve these objectives.

As our 200th anniversary approaches, we owe it to ourselves, and to posterity, to rebuild our political and economic strength. Let us make America, once again, and for centuries more to come, what it has so long been -- a stronghold and beacon-light of liberty for the world.

GERALD R. FORD

THE WHITE HOUSE,

January 15, 1975.

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THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S STATE OF THE UNION MESSAGE

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THE PRESIDENT'S ECONOMIC AND TAX PROGRAM

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The President's Economic and Tax Program

The President's State of the Union Address outlined the nation's current economic situation and outlook, and his economic and tax program which are designed to wage a simultaneous three-front campaign against recession, inflation and energy dependence.

BACKGROUND

The U.S. economy is faced with the closely linked problems of inflation and recession. During 1974, the economy experienced the highest rate of inflation since World War II. Late in 1974, when a recession set in, unemployment rose sharply to over 7 percent, the highest level in 13 years.

Accelerated inflation had its roots in the policies of the past and several recent developments not subject to U.S. control. Specifically:

-- Excessive Federal spending and lending for over a decade and too much money and credit growth.

-- Unusually poor harvests contributed heavily to world-wide food shortages and escalating food prices.

-- World petroleum product prices increased dramatically due to the Arab nations' embargo on shipments of oil to the U.S., the quadrupling of the price of crude oil by the OPEC nations, and their sharp reductions in crude oil production to maintain higher prices. Higher energy prices were passed through in the prices of other products and services.

-- The decline in U.S. domestic production of oil and natural gas that began in the 1960's also contributed to higher energy prices.

- An economic boom occurred simultaneously in the industrialized nations of the world.

- There were two international devaluations of the dollar.

Inflation contributed strongly to the forces of recession:

- The real purchasing power of workers' paychecks was reduced.

- Inflation also reduced consumer confidence, contributing to the most severe slump in consumer purchasing since World War II.

- Inflation forced interest rates to very high levels, draining funds out of financial institutions that supply most mortgage loans and thus sharply reducing construction of homes.

- Federal Government spending and lending programs, accounting for over half the funds raised in capital markets, reduced the amount of money available for capital investments needed to raise productivity and increase living standards.

CURRENT SITUATION AND NEAR-TERM OUTLOOK

The economy is now in a full-fledged recession and unemployment will rise further. Inflation continues at a rapid pace and the need to take immediate steps to conserve energy will further complicate the problem initially.

There are no instant cures. A careful and balanced policy approach is required. It will take time to yield full results. There is, however, no prospect of a long and deep economic downturn on the scale of the 1930's.

MAJOR ELEMENTS OF THE PRESIDENT'S ECONOMIC AND TAX PROGRAM

I. A $16 Billion Temporary, Anti-Recession Tax Reduction. This major reduction in taxes proposed for individuals and businesses is designed to restore consumer confidence and promote a recovery of production and employment. The recession is deeper and more widespread than expected earlier, but the tax reduction -- together with the easing of monetary conditions that has already taken place -- will support a healthy economic recovery. The tax reduction must be temporary to avoid excessive stimulus resulting in a new price explosion and congested capital markets. The temporary nature of the reduction is consistent with the long-term economic goals of achieving and maintaining reasonable price stability and raising the share of national output devoted to saving and capital formation.

II. Energy Taxes and Fees. Energy excise taxes and fees on petroleum and natural gas will reduce use of these energy sources and reduce the nation's need for importing expensive and insecure foreign oil. Removal of price controls from domestic crude oil (together with other energy actions) will encourage domestic oil production. A windfall profits tax would recover windfall profits resulting from crude oil decontrol. Energy taxes and fees are expected to raise $30 billion in new Federal revenues on an annual basis.

III. Permanent Tax Reduction Made Possible By Energy Taxes and Fees. The $30 billion annual revenue from energy conservation excise taxes and fees and the windfall profits tax on crude oil would be returned to the economy through a major tax cut, a cash payment for non-taxpayers, and direct distribution to governmental units. Tax reductions are designed to go mainly to low-and middle-income taxpayers.

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IV. One Year Moratorium on New Federal Spending Programs. The moratorium on new spending programs proposed by the President will permit the Federal Government to move toward long-term budget responsibility and to avoid refueling inflation when the economy begins rising again.

V. Budget Reductions. The President will propose significant spending reductions in his Fiscal Year 1976 Budget. The reductions total more than $17 billion, including $7.8 billion savings from reductions proposed last year and $6.1 billion from the 5 percent ceiling to be proposed on Federal employee pay increases and on Federal benefit programs that rise automatically with the Consumer Price Index.

SPECIFIC PROPOSALS ANNOUNCED BY THE PRESIDENT

I. A Temporary, Anti-Recession Tax Cut of $16 Billion. The President proposed a temporary, tax reduction of approximately $16 billion to provide prompt stimulus to consumer spending and business investment. The tax cut is divided 75 percent to individuals and 25 percent to corporations, which is approximately the ratio that individual income taxes bear to corporate income taxes. The cuts would be:

A. A Tax Reduction for Individuals of $12 Billion.

1. Individuals will receive a cash refund equal to 12 percent of their 1974 tax liabilities, as reported on their 1974 tax returns now being filed, up to a limit of $1,000. Married couples filing separately would receive a maximum refund of $500 each.

2. The temporary reduction will be a uniform 12 percent for all taxpayers up to about the $41,000 income level where the $1,000 maximum takes effect, and will then be a progressively smaller percentage for taxpayers above that level.

3. The refund will be paid in two equal installments in 1975 with payments of the first installment beginning in May and the second in September.

4. The proposal does not affect in any way the manner in which taxpayers complete and file their 1974 tax returns. They will file and pay their tax in accordance with existing law, without regard to the tax reduction. Later they will receive their refund checks from the Internal Revenue Service. Because no changes in deductions and other such items are involved, the Internal Revenue Service will be able to determine the amount of the refund and mail the checks without requiring further forms and computations from taxpayers.

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5. The effect of the tax refund can be illustrated for a family of four as follows:

Adjusted Gross Income	Present Tax	Proposed Refund	Percent Saving
$ 5,000	$ 98	$ 12	-12.0%
7,000	402	48	-12.0%
10,000	867	104	-12.0%
12,500	1,261	151	-12.0%
15,000	1,699	204	-12.0%
20,000	2,660	319	-12.0%
40,000	7,958	955	-12.0%
50,000	11,465	1,000	- 8.7%
60,000	15,460	1,000	- 6.5%
100,000	33,340	1,000	- 3.0%
200,000	85,620	1,000	- 1.2%

Although the taxpayer will not figure his own refund, it is a simple matter for him to anticipate how much the Internal Revenue Service will be sending him, by calculating 12 percent of his total tax liability for the year (on Form 1040 for 1974, it is line 18, page 1, and on Form 1040A, line 19).

B. A Temporary Increase in Investment Tax Credit for Business and Farmers of $4 billion.

1. There will be an increase for one year in the investment tax credit to 12 percent for all taxpayers, including utilities (which presently have, in effect, a 4 percent credit). Utilities will continue to receive a 12 percent credit for two additional years for qualified investment in electrical power plants other than oil- or gas-fired facilities.

2. This increase in the credit will provide benefits of $4 billion in 1975 to immediately stimulate job-creating investment. (In view of the need for speedy enactment and the temporary nature of the increased credit, this change does not include the basic restructuring of the credit as proposed on a permanent basis in October, 1974.)

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3. With respect to utilities, it includes a temporary increase in the amount of credit which may be used to offset income tax. Under current law, not more than 50 percent of the income tax liability for the year may be offset by the investment credit. Since many utilities have credits they have been unable to use because of this limitation, under this proposal utilities will be permitted to use the credit to offset up to 75 percent of their tax liability for 1975, 70 percent for 1976, 65 percent for 1977 and so on, until 1980, when they will in five annual steps have returned to the 50 percent limitation applicable to industry generally.

4. The 12 percent credit will apply to property placed in service during 1975 and to property ordered during 1975 if placed in service before the end of 1975. The credit will also be available to the extent of construction, reconstruction or erection of property by or for a taxpayer during 1975, without regard to the date ultimately placed in service. Similar rules will apply to investment in electrical power plants other than oil-or gas-fired facilities, for which the 12 percent credit will continue through 1977.

II. Energy Conservation Taxes and Fees. Energy taxes and fees, in conjunction with domestic crude oil price decontrol and the proposed windfall profits tax, would raise about $30 billion on an annual basis. The fees and taxes and related actions (discussed more fully in Part Two of this Fact Sheet) include:

A. Administrative Actions.

1. Import Fee -- The President is acting immediately within existing authorities to increase import fees on crude oil and petroleum products. These new import fees will be modified upon passage of the President's legislative package.

(a) Import fees on crude oil and petroleum products will be increased by $1 effective February 1, 1975; an additional $1 effective March 1; and another $1 effective April 1, for a total increase of $3.00 per barrel. Currently existing fees will also remain in effect.

(b) FEA's "Old Oil Entitlements" program will be utilized to spread price increases on crude among all refiners, and to lessen disproportionate regional effects, such as New England, or in any specific industries or areas of human need where oil is essential.

(c) As of February 1975, product imports will cease to be covered by FEA's "Old Oil Entitlements" program. In order to overcome any severe regional impacts that could be caused by large fees in import dependent areas, imported products will receive a fee rebate corresponding to the benefit which would have been obtained under that program. The rebate should be approximately $1.00 in February, $1.40 in March, and $1.30 per barrel thereafter.

(d) The import fee program will reduce imports by an estimated 500,000 barrels per day and generate about $400 million per month in revenues by April.

2. Crude Oil Price Decontrol -- To stimulate domestic production and further cut demand, steps will be taken to remove price controls on domestic crude oil by April 1, 1975, subject to congressional disapproval as provided by §4(g) of the Emergency Petroleum Allocation Act of 1973.

3. Control of Imports -- The energy conservation measures to be imposed administratively outlined above, the energy conservation taxes outlined below and other energy conservation measures covered in Part Two below, will be supplemented by the use of Presidential power to limit oil imports as necessary to fully achieve the President's goals of reducing foreign oil imports by one million barrels a day by the end of 1975 and by two million barrels before the end of 1977.

B. Taxes Proposed to the Congress. The President asked the Congress to pass within 90 days a comprehensive energy conservation tax program which will raise an estimated $30 billion in revenues on an annual basis. The taxes proposed are:

1. Petroleum Excise Tax and Import Fee -- An excise tax on all domestic crude oil of $2 per barrel and a fee on imported crude oil and product imports of $2 per barrel.

2. Natural Gas Excise Tax -- An excise tax on natural gas of 37¢ per thousand cubic feet (mcf), the equivalent on a Btu basis to the $2 per barrel petroleum excise tax and import fee.

3. Windfall Profits Tax -- To ensure that the end of controls on crude oil prices does not result in one sector of the economy benefitting unfairly at the expense of other sectors, a windfall profits tax will be levied on the profits realized by producers of domestic oil. This tax is intended to recapture excessive profits which would otherwise be realized by producers as a result of the rise in international oil prices. This tax does not itself cause price increases, but simply recaptures the profits from price increases otherwise induced. It will, together with the income tax on such profits, produce revenues of approximately $12 billion. In aggregate, the windfall profits tax is sufficient to absorb all the profits that would otherwise flow from decontrolling oil prices, plus an additional $3 billion. More specifically the tax will operate as follows:

(a) A windfall profits tax at rates graduated from 15 percent to 90 percent will be imposed on that portion of the price per barrel that exceeds the producer's adjusted base price and therefore represents a windfall profit. The initial "adjusted base price" will be the producer's ceiling price per barrel on December 1, 1973 plus 95 cents to adjust for subsequent increased costs and higher price levels generally. Each month the bases will be adjusted upward on a specified schedule, which will gradually raise the adjusted base price to reflect long-run supply conditions and provide the incentive for new investment in petroleum exploration. Percentage depletion will not be allowed on the windfall profits tax liability.

(b) The windfall profits tax rates will be applied to prices per barrel in excess of applicable adjusted base prices as follows:

Portion of price per barrel in excess of base and subject to tax	Amount of tax
Less than $0.20	15% of amount within bracket
$0.20, under $0.50	$0.03 plus 30% of amount within bracket
$0.50, under $1.20	$0.12 plus 60% of amount within bracket
$1.20, under $3.00	$0.54 plus 80% of amount within bracket
$3.00 and over	$1.98 plus 90% of amount within bracket

(c) The windfall profits tax does not include a "plowback" provision, nor does it contain exemptions for classes of production or producers. It does, however, include the limitation that the amount subject to tax may not exceed 75 percent of the net income from the barrel of crude oil. The tax will be retroactive to January 1, 1975.

(d) The windfall profits tax reduces the base for the depletion allowance.

III. Permanent Tax Reductions and Payments to Non-Taxpayers Made Possible by Energy Conservation Taxes.

Of the $30 billion in revenue raised annually by the proposed conservation taxes outlined above, about $5 billion is paid by governments through the higher costs of energy in their purchases. This $5 billion includes:

$3 billion by the Federal government.
$2 billion by state and local governments.

The President is proposing to the Congress that $2 billion of the revenues be paid to State and local governments, pursuant to the distribution formulas applicable to general revenue sharing. The other $25 billion will be returned to the economy mostly in the form of tax cuts. As in the case of the temporary tax reduction, this permanent change will be divided between individuals and corporations on a 75-25 percent basis, about $19 billion for individuals and about $6 billion for corporations. Specifically, this would include:

A. Reductions for Individuals in 1975 -- Tax cuts for individuals will be achieved in two ways: (1) through an increase in the Low Income Allowance and (2) a cut in the schedule of tax rates. In this way, tax-paying individuals will receive a reduction of approximately $16 1/2 billion, with proportionately larger cuts going to low-and middle-income families. The Low Income Allowance will be increased from the present $1,300 level to $2,600 for joint returns and $2,000 for single returns. That will bring the level at which returns are nontaxable to what is approximately the current "poverty level" of $5,600 for a family of 4. In addition, the tax rates applicable to various brackets of income will be reduced. The aggregate effects of these changes are as follows:

(1975 Levels)
($billions)

Adjusted Gross Income Class ($000)	Income Tax Paid Under Present Law	Amount of Income Tax Reduction	Percentage Reduction in Income Tax (..... % .....)
0 - 3	3	- .25	-83.3%
3 - 5	1.8	- 1.20	-66.7
5 - 7	4.0	- 1.96	-49.0
7 - 10	8.9	- 3.38	-38.0
10 - 15	21.9	- 4.72	-21.6
15 - 20	22.8	- 2.70	-11.8
20 - 50	44.4	- 2.15	- 4.8
50 - 100	13.5	- .11	- 0.8
100 and over	13.3	- .03	- 0.2
Total	130.9	-16.50*	-12.6

*Does not include payments to nontaxpayers

The effect of these tax changes can be illustrated for a family of 4, as follows:

Adjusted Gross Income	Present Tax 1/	New Tax	Tax Saving	Percent Saving
$ 5,600	$ 185	$ 0	$185	100.0%
7,000	402	110	292	72.6
10,000	867	518	349	40.3
12,500	1,261	961	300	23.8
15,000	1,699	1,478	221	13.0
20,000	2,660	2,450	210	7.9
30,000	4,988	4,837	151	3.0
40,000	7,958	7,828	130	1.6

1/ Calculated assuming Low Income Allowance or itemized deductions equal to 17 percent of income, whichever is greater.

B. Residential Conservation Tax Credit (Discussed in the Energy Section of this Fact Sheet). The President seeks legislation to provide incentives to homeowners for making thermal efficiency improvements, such as storm windows and insulation, in existing homes. This measure, along with a stepped-up public information program, could save the equivalent of over 500,000 barrels of oil per day by 1985. Under this legislation:

1. A 15 percent tax credit retroactive to January 1, 1975 for the cost of certain improvements in thermal efficiency in residences would be provided. Tax credits would apply to the first $1,000 of expenditures and can be claimed during the next three years.

2. At least 18 million homes could qualify for these tax benefits, estimated to total about $500 million annually in tax credits.

C. Payments to Nontaxpayers of $2 billion. The final component of the $19 billion distribution to individuals is a distribution of nearly $2 billion to nontaxpayers and certain low-income taxpayers. For this low-income group, a special distribution of $80 per adult will be provided, as follows:

1. Adults who would pay no tax, even without the tax reductions in A above, will receive $80.

2. Adults who receive less than $80 in such tax reductions will receive approximately the difference.

3. Persons not otherwise filing returns but eligible for these special distributions will make application on simple forms provided by the Internal Revenue Service on which they would furnish their name, address, social security number, and income.

4. For purposes of the special distribution, "adults" are individuals who during the year are at least 18 years old and who are not eligible to be claimed as a dependent under the Federal income tax laws.

5. Since most taxpayers will receive their 1975 income tax reductions in 1975 through reductions in withholding on wages and estimated tax payments, the special distribution to non-taxpayers and low-income

taxpayers will also begin in 1975. It is anticipated that disbursement, based on 1974 income can be made in the summer of 1975.

D. Tax Reductions for Corporations. The corporate rate will be reduced by 6 percentage points, effectively lowering the corporate rate from 48 percent to 42 percent for 1975. The resulting benefit in 1975 is estimated at about $6 billion.

IV. Moratorium on New Federal Spending Programs. The President announced that he would propose no new Federal spending programs except for energy. He also indicated that he would not hesitate to veto any new spending programs passed by the Congress. The need for the moratorium is demonstrated by preliminary FY 1976 Budget estimates:

	Fiscal Years			Percent Change	
	1974	1975	1976	75/74	76/75
Revenues	264.9	280	303	5.7%	8.2%
Outlays	268.4	314	349	17 %	11.1%
Deficit	-3.5	32-34	45-47	--	--

NOTE: Estimates for 1975 and 1976 are subject to a variation of $2 billion in the final budget.

V. Budget Reductions. The budget figures shown above assume that significant budget reductions proposed by the President are effected. Including reductions proposed in a series of special messages sent to the last session of Congress, these budget reductions total more than $17 billion. Of this total, over $6 billion will result from the proposed 5% ceiling on Federal pay increases and on those Federal benefit programs that rise automatically with the Consumer Price Index.

The following summarizes reductions in 1976 spending to be included in the upcoming budget:

	(Outlays in billions)
Effect of budget reductions proposed last year (including administrative actions)	$8.9
Amounts overturned by the Congress	-1.1
Remaining savings	7.8
Further reductions to be proposed:	
Ceiling of 5% on Federal pay and programs tied to the CPI	6.1
Other actions planned . . .	3.6
Total reductions	17.5

The following lists those programs to which the 5% ceiling will apply and shows spending amounts for them:

Effect of 5% Ceiling on Pay Increases and Programs Tied to CPI
(Fiscal year estimates; Dollars in billions)

Programs Affected	1975 Outlays	1976 Outlays Without ceiling	1976 Outlays With ceiling	Difference 1975-1976 (with ceiling)
Social security ..	64.5	74.3	71.8	+7.3
Railroad retirement	3.0	3.4	3.3	+0.3
Supplemental Security Income	4.7	5.5	5.4	+0.7
Civil service and military retirement payments	13.5	16.2	14.9	+1.4
Foreign Service retirement ...	.1	.1	.1	*
Food stamp program	3.7	3.9	3.6	-0.1
Child nutrition	1.3	1.8	1.6	+0.3
Federal salaries:				
Military	23.2	23.1	22.5	-0.7
Civilian	35.5	38.9	38.0	+2.5
Coal miner benefits	1.0	1.0	1.0	*
Total	150.5	168.2	162.1	+11.7

* Less than $50 million.

The 5% ceiling will take into account increases that have already occurred since January 1, 1975. Under the plan, after June 30, 1976, adjustments would be resumed in the same way as before the establishment of the 5% ceiling. However, no catchup of the increases lost under the ceiling would take place.

SUMMARY OF THE BUDGET IMPACT OF THE NEW TAXES AND FEES AND THE TAX CUTS

The following table summarizes the estimated direct budget impact, on a full-year-effective basis, of the tax and related changes proposed by the President to deal with the economic and energy situations:

Revenue Raising Measures	Estimated Amounts ($ billions)
Oil excise tax and import fee	+ 9 1/2
Natural gas excise tax	+ 8 1/2
Windfall Profits tax	+12
Total	+30

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Revenue Disbursing Measures	Estimated Amounts ($ billions)
Energy rebates:	
Income tax cuts, individuals	-16 1/2
Residential tax credit	- 1/2
Nontaxpayer distribution	- 2
Corporate tax cut	- 6
State and local governments	- 2
Federal government costs	- 3
Subtotal	-30
Temporary economic stimulus:	
Individual tax refunds	-12
Investment credit increase	- 4
Subtotal	-16
Total Revenue Disbursing Measures	46

The tax and related changes will go into effect at different times, but all of them during the year 1975:

-- The energy conservation taxes are proposed to go into effect April 1.

-- The increase in import fees would go into effect

- $1 per barrel February 1.
- To $2 per barrel March 1.
- To $3 per barrel, if the energy taxes have not been enacted, April 1.

-- The windfall profits tax on crude oil would be effective as of January 1, 1975. First payments of the tax would be made in the third quarter.

-- The permanent tax cuts for individuals and corporations made possible by the revenues from the energy conservation taxes would be effective as of January 1, 1975. The changes in withholding rates for individuals are expected to go into effect on June 1. The withholding changes will be adjusted so that 12 months reduction is accomplished in the 7 months from June through December.

-- The tax credit for energy-saving improvements to existing residences would go into effect as of January 1, 1975.

-- The special distribution to nontaxpayers is expected to be paid out in the summer of 1975.

-- The $2 billion distribution to State and local governments would be effective with the second quarter of 1975.

-- The temporary anti-recession tax cut for individuals will be paid out in two installments, in the second and third quarters.

-- The one-year increase in the investment tax credit becomes effective retroactively to January 1, 1975.

The timing of the various changes suggests a pattern of direct budget changes as follows. The timing of the economic stimulus or restraint will depend, as well on such factors as the indirect effects of the budget changes, the timing of the pass-through of higher energy costs to final users, the extent to which the changes are anticipated, and a variety of monetary and financial developments that arise out of these changes.

Timing of Direct Budget Impact

($ billions)

	Calendar Years							
	1975				1976			
	I	II	III	IV	I	II	III	IV
Energy Taxes	+0.2	+4.1	+12.6	+7.6	+7.6	+7.5	+7.5	+7.5
Return of Energy Revenues to Economy								
Tax Reduction	.0	-3.2	- 9.0	-9.0	-5.6	-7.9	-6.3	-6.4
Nontaxpayers			- 2.0				-2.0	
S&L Gov'ts	.0	-0.5	- 0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Federal Govt.	.0	.0	- 0.8	-0.7	-0.8	-0.7	-0.8	-0.7
Temporary Tax Cut	.0	-6.1	- 7.9	-0.6	-0.8	-0.9	0	0
Net Effect	+0.2	-5.7	- 7.6	-3.2	-0.1	-2.5	-2.1	-0.1

INFLATION IMPACT

Both major parts of the tax package require inflation impact analysis. The excise taxes on crude oil and natural gas, combined with the tariff and decontrol of prices of both "old" oil and new natural gas, will add to the general price level immediately. The consumer price index is expected to rise by about two percent when these tax and price increases go into effect. However, this increase has a one-time impact on the price level that, with exceptions in some areas, should not add materially to inflationary pressures in future years.

The inflationary impact of the $16 billion anti-recession tax cut is more difficult to assess. While some economists may argue that a tax cut will add to the rate of inflation during the year ahead, others would contend that under present economic conditions, with unemployment high and many factories operating well below capacity, the predominant effect of the tax cut will be to stimulate spending, and that additional spending will have only a slight impact on prices.

Whatever the precise price impact of this $16 billion tax cut during 1975, the most important fact about it from the standpoint of inflation is that it is temporary. With the recession still under way, the rate of inflation will be coming down -- it will be too high, but nevertheless moving in the right direction. After the economy gets well into recovery, however, too much stimulus would be sure to reverse the slowing of the inflation rate and, indeed, start a new acceleration. Thus, the tax stimulus must be temporary rather than permanent.

The President has declared a moratorium on new Federal spending programs for this same reason. Budget expenditures are rising rapidly this year, in part, because of programs to aid the unemployed. That is acceptable and highly desirable in a recession to relieve the burden on workers who are affected. It is also desirable because spending under those programs phases out as the economy recovers and unemployment falls. The increased Federal spending is only temporary.

Over the long-term, however, both Federal spending and lending have been rising much too fast, a fact that accounts for a substantial part of our current economic problems. A new burst of expenditure programs cannot

help the Nation recover from the current recession -- the impact would come much too late -- but it would surely do much inflationary harm as the economy returns to prosperous conditions in the years ahead. Therefore, at the same time that taxes are being reduced to support a healthy recovery, policies that would revive inflationary pressures must be avoided after the recovery is underway. The size of currently projected Federal budget deficits precludes introduction of new spending programs now that would raise inflationary pressures later. For this reason, the President requested that no new spending programs, except as needed in the energy area, be enacted so that we can regain control of the budget over the long-run and permit a gradual return to reasonable price stability.

PRESIDENTIAL PROPOSALS OF OCTOBER 8, 1974 RESUBMITTED FOR CONGRESSIONAL ACTION

In addition to the comprehensive set of economic and energy policies discussed in the State of the Union Message, the President asked that the new Congress pass quickly certain legislative proposals originally requested in his October 8, 1974, message. Those proposals would:

1. Remove restrictions on the production of rice, peanuts, and extra-long-staple cotton.

2. Amend P.L. 480 to waive certain restrictions on shipments of food under that Act to needy countries for national interest or humanitarian reasons.

3. Amend the Antitrust Civil Process Act to strengthen the investigation powers of the Antitrust Division of the Department of Justice.

4. Eliminate the U.S. Withholding tax on foreign portfolio investments to encourage such investment.

5. Allow dividends paid on qualified preferred stock to be an authorized deduction for determining corporate income taxes to increase incentives for raising needed capital in the form of equity rather than debt.

6. Create a National Commission on Regulatory Reform and take prompt action on other reforms of regulatory and administrative procedures that will be recommended in the future.

7. Strengthen our financial institutions and provide a new tax incentive for investment in residential mortgages.

8. Permit more competition between different modes of surface transportation (The Surface Transportation Act).

9. Amend the Employment Act of 1946 to make explicit the goal of price stability. (Substitute "to promote maximum employment, maximum production, and stability of the general price level" in place of the present language, "to promote maximum employment, production and purchasing power.")

The President's Energy Program
(including energy taxes and fees)

The President's State of the Union Address outlined the Nation's energy outlook, set forth national energy policy objectives, and described actions he is taking immediately and indicated proposals he is asking the Congress to pass.

BACKGROUND

Over the past two years, progress has been made in conserving energy, expanding energy R&D and improving Federal government energy organization. Despite such accomplishments, we have not succeeded in solving fundamental problems and our National energy situation is critical. Our reliance on foreign sources of petroleum is contributing to both inflationary and recessionary pressures in the United States. World economic stability is threatened and several industrialized nations dependent upon imported oil are facing severe economic disruption.

With respect to the U.S. energy situation:

-- Petroleum is readily available from foreign sources -- but at arbitrarily high prices, causing massive outflow of dollars, and at the risk of increasing our Nation's vulnerability to severe economic disruption should another embargo be imposed.

  - Petroleum imports remain at high levels even at present high prices.

  - Domestic oil production continues to decline as older fields are depleted and new fields are years from production; 8.0 million barrels per day in 1974 compared to 9.2 million in 1973.

  - Total U.S. petroleum consumption is increasing, although at slower rates due to higher prices.

-- Natural gas shortages are forcing curtailment of supplies to many industrial firms and denial of service to new residential customers. (14% expected this winter versus 7% last year.) This is resulting in unemployment, reductions in the production of fertilizer needed to increase food supplies, and increased demand for alternative fuels -- primarily imported oil.

-- Coal production is at about the same level as in the 1930's.

-- Nuclear energy accounts for only 1 percent of total energy supply and new plants are being delayed, postponed or cancelled.

-- Overall energy consumption is beginning to increase again.

-- U.S. vulnerability to economic and social impact from an embargo increases with higher imports and will continue to do so until we reverse current trends, ready standby plans, and increase petroleum storage.

Economic impacts of the four-fold increase in OPEC oil prices include:

-- Heavy outflow of U.S. dollars (and, in effect, jobs) to pay for growing oil imports --- about $24 billion in 1974 compared to $2.7 billion in 1970.

-- Tremendous balance of payments deficits and possible economic collapse for those nations of Europe and Asia that must depend upon expensive imported oil as a primary energy source.

-- Accumulation of billions of dollars of surplus revenues in oil exporting nations -- approximately $60 billion in 1974 alone.

U.S. ENERGY OUTLOOK

I. Near-Term (1975-1977): In the next 2-3 years, there are only a few steps that can be taken to increase domestic energy supply particularly due to the long lead time for new production. Oil imports will thus continue to rise unless demand is curbed.

II. Mid-Term (1975-1985): In the next ten years, there is greater flexibility. A number of actions can be taken to increase domestic supply, convert from foreign oil to domestic coal and nuclear energy, and reduce demand -- if the Nation takes tough actions. Vulnerability to an embargo can be eliminated.

III. Long-Term (Beyond 1985): Emerging energy sources can play a bigger role in supplying U.S. needs -- the results of the Nation's expanded energy research and development program. U.S. independence can be maintained. New technologies are the most significant opportunity for other consuming nations with limited domestic resources.

NATIONAL ENERGY POLICY GOALS AND PRINCIPLES ANNOUNCED BY THE PRESIDENT

I. Near-Term (1975-1977): Reduce oil imports by 1 million barrels per day by the end of 1975 and 2 million barrels by the end of 1977, through immediate actions to reduce energy demand and increase domestic supply.

(A) With no action, imports would be about 8 million barrels per day by the end of 1977, more than 20 percent above the 1973 pre-embargo levels.

(B) Acting to meet the 1977 goal will reduce imports below 1973 levels, assuring reduced vulnerability from an embargo and greater consumer nation cooperation.

(C) More drastic short-term reductions would have unacceptable economic impacts.

II. Mid-Term (1975-1985): Eliminate vulnerability by achieving the capacity for full energy independence by 1985. This means 1985 imports of no more than 3-5 million barrels of oil per day, all of which can be replaced immediately from a strategic storage system and managed with emergency measures.

(A) With no action, oil imports by 1985 could be reduced to zero at prices of $11 per barrel or more -- or they could go substantially higher if world oil prices are reduced (e.g., at $7 per barrel, U.S. consumption could reach 24 million barrels per day with imports of above 12 million, or above 50% of the total.)

(B) The U.S. anticipates a reduction in world oil prices over the next several years. Hence, plans and policies must be established to achieve energy independence even at lower prices -- countering the normal tendency to increase imports as the price declines.

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(C) Actions to meet the 1985 goal will hold imports to no more than 3-5 million barrels per day even at $7 per barrel prices. Protection against an embargo of the remaining imports can then be handled most economically with storage and standby emergency measures.

III. Long-Term (Beyond 1985): Within this century, the U.S. should strive to develop technology and energy resources to enable it to supply a significant share of the Free World's energy needs.

(A) Other consuming nations have insufficient fossil fuel resources to reach domestic energy self-sufficiency.

(B) The U.S. can again become a world energy supplier and foster world energy price stability -- much the same as the nation did prior to the 1960's when it was a major supplier of world oil.

IV. Principles: Actions to achieve the above national energy goals must be based upon the following principles:

-- Provide energy to the American consumer at the lowest possible cost consistent with our need for secure energy supplies.

-- Make energy decisions consistent with our overall economic goals.

-- Balance environmental goals with energy requirements.

-- Rely upon the private sector and market forces as the most efficient means of achieving the Nation's goals, but act through the government where the private sector is unable to achieve our goals.

-- Seek equity among all our citizens in sharing of benefits and costs of our energy program.

-- Coordinate our energy policies with those of other consuming nations to promote interdependence, as well as independence.

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ACTIONS ANNOUNCED TODAY BY THE PRESIDENT

I. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET NEAR-TERM GOALS (1975-1977)

To meet the national goals, the President outlined a comprehensive program of legislative proposals to the Congress which he requested be enacted within 90 days and administrative actions that he will begin implementing immediately. The legislative package is more effective and equitable than the administrative program, but the President indicated that the seriousness of the situation demanded immediate action. These actions will reduce overall energy demand, increase domestic production, increase conversion to coal, and reduce oil imports. They include:

(A) Administrative Actions

1. Import Fee -- Because of the seriousness of the problem and because time is required for Congressional action on his legislative proposals, the President is acting immediately within existing authorities to increase the import fees on crude oil and petroleum products. These new import fees would be modified upon passage of the President's legislative package.

(a) Import fees on crude oil and petroleum products under the authority of the Trade Expansion Act of 1962, as amended, will be increased by $1 effective February 1, 1975, an additional $1 effective March 1; and another $1 effective April 1, for a total increase of $3.00 per barrel. Currently existing fees will also remain in effect.

(b) FEA's "Old Oil Entitlements" program will be utilized to spread price increases on crude among all refiners and to lessen disproportionate regional effects, particularly in the Northeast.

(c) As of February 1975, product imports will cease to be covered by FEA's "Old Oil Entitlements" program. In order to overcome any severe regional impacts that could be caused by large fees in import dependent areas, imported products will receive a rebate corresponding to the benefit which would have been obtained under that program. The rebate should be approximately $1.00 in February, $1.40 in March, and $1.80 per barrel in April.

(d) This import fee program would reduce imports by about 500,000 barrels per day. In April it would generate about $400 million per month in revenues.

more (OVER)

2. Backup Import Control Program -- The energy conservation measures and tax proposals will be supplemented by the use of Presidential power to limit oil imports as necessary to achieve the near-term goals.

3. Crude Oil Price Decontrol -- To stimulate production and further cut demand, steps will be taken to remove price controls on domestic crude oil by April 1, 1975, subject to congressional disapproval as provided by §4(g) of the Emergency Petroleum Allocation Act of 1973.

4. Increase Public Education on Energy Conservation -- Energy Resources Council will step up its efforts to provide information on energy conservation methods and benefits.

(B) Legislative Proposals

1. Comprehensive Tax and Decontrol Program -- The President asked the Congress to pass within 90 days a comprehensive legislative package which could lead to reduction of oil imports of 900,000 barrels per day by 1975 and 1.6 million barrels by 1977. Average oil prices would rise about $4.00 per barrel of $.10 per gallon. The package which will raise $30 billion in revenues on an annual basis includes:

(a) Windfall Profits Tax -- A tax on all domestic crude oil to capture the windfall profits resulting from price decontrol. The tax would take 88% of the windfall profits on crude oil and would phase out over several years. The tax would be retroactive to January 1, 1975.

(b) Petroleum Excise Tax and Import Fee -- An excise tax on all domestic crude oil of $2 per barrel and a fee on imported crude oil and product imports of $2 per barrel. The new, administratively established import fee of $3 on crude oil would be reduced to $2.00 and $1.20 fee on products would be increased to $2.00 when the tax is enacted. The product import fee would keep the excise tax from encouraging foreign refining and the related loss of jobs to the U.S.

(c) New Natural Gas Deregulation -- Remove Federal interstate price regulation on new natural gas to increase domestic production and reduce demand for scarce natural gas supplies.

(d) Natural Gas Excise Tax -- An excise tax on natural gas of 37¢ per thousand cubic feet (mcf), which is equivalent on a Btu basis to the $2 per barrel petroleum excise tax and fee. This will discourage attempts to switch to natural gas and acts to reduce natural gas demand curtailments. Since the usual results of gas curtailments is a switch to oil, this will limit the growth of oil imports.

2. Elk Hills Naval Petroleum Reserve. The President is asking the Congress to permit production of the Elk Hills Naval Petroleum Reserve (NPR #1) under Navy control. Production could reach 160,000 barrels per day early in 1975 and 300,000 barrels per day by 1977. The oil produced would be used to top off Defense Department storage tanks, with the remainder sold at auction or exchanged for refined petroleum products used by the Department of Defense. Revenues would be used to finance further exploration, development and production of the Naval petroleum reserves and the strategic petroleum storage.

3. Conversion to the Use of Domestic Coal. The President is asking the Congress to amend the Clean Air Act and the Energy Supply and Environmental Coordination Act of 1974 to permit a vigorous program to make greater use of domestic coal to reduce the need for oil. This program would reduce the need for oil imports by 100,000 barrels per day in 1975 and 300,000 barrels in 1977. These amendments would extend FEA's authority to grant prohibition orders from 1975 to 1977, prohibit powerplants early in the planning process from burning oil and gas, extend FEA enforcement authority from 1978 to 1985, and make clear that coal burning

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3. Conversion to the Use of Domestic Coal. The President is asking the Congress to amend the Clean Air Act and the Energy Supply and Environmental Coordination Act of 1974 to permit a vigorous program to make greater use of domestic coal to reduce the need for oil. This program would reduce the need for oil imports by 100,000 barrels per day in 1975 and 300,000 barrels in 1977. These amendments would extend FEA's authority to grant prohibition orders from 1975 to 1977, prohibit powerplants early in the planning process from burning oil and gas, extend FEA enforcement authority from 1978 to 1985, and make clear that coal burning

2. OCS Leasing (Administrative) -- The President reaffirmed his intention to continue an aggressive Outer Continental Shelf leasing policy, including lease sales in the Atlantic, Pacific, and Gulf of Alaska. Decisions on individual lease sales will await completion of appropriate environmental studies. Increased OCS leasing could add domestic production of 1.5 million barrels of oil and additional supplies of natural gas by 1985. There will be close cooperation with Coastal states in their planning for possible increased local development. Funding for environmental studies and assistance to States for planning has been increased in FY 1975.

3. Reducing Domestic Energy Price Uncertainty (Legislative proposal) -- Legislation will be requested authorizing and requiring the President to use tariffs, import quotas, import price floors, or other measures to achieve domestic energy price levels necessary to reach self-sufficiency goals. This legislation would enable the President to cope with possible large-scale fluctuations in world oil prices.

4. Clean Air Act Amendments (Legislative proposal) -- In addition to the amendments outlined earlier for short-term goals, the President is asking for other Clean Air Act amendments needed for a balance between environmental and energy goals. These include:

(a) Legislative clarification to resolve problems resulting from court decisions with respect to significant air quality deterioration in areas already meeting health and welfare standards.

(b) Extension of compliance dates through 1985 to implement a new policy regarding stack gas scrubbers -- to allow use of intermittent control systems in isolated power plants through 1985 and requiring other sources to achieve control as soon as possible.

(c) A pause for 5 years (1977-1981 model years) for nationwide auto emission standards at the current California levels for hydrocarbons (0.9 grams per mile) and carbon monoxide (9 grams per mile), and at 1975 standards (3.1 grams per mile) for oxides of nitrogen (with the exception of California which has adopted the 2.0 standard). These standards for hydrocarbons (HC) and carbon monoxide (CO) are more stringent than now required nationwide for 1976 model year's cars. The change from the levels now required for 1977-1981 model years in the law will have no significant impact on air quality standards, yet they will facilitate attainment of the goal of 40% increase in auto fuel efficiency by the 1980 model year.

(d) EPA will shortly begin comprehensive hearings on emission controls and fuel economy which will provide more detailed data for Congressional consideration.

5. Surface Mining (Legislative proposal) -- The President is asking the Congress to pass a surface mining bill which strikes a balance between our desires for reclamation and environmental protection and our need to increase domestic coal production substantially over the next ten years. The proposed legislation will correct the problems which led to the President's veto of a surface mining bill last year.

6. Coal Leasing (Administrative) -- To assure rapid production from existing leases and to make new, low sulfur coal supplies available, the President directed the Secretary of the Interior to:

(a) Adopt legal diligence requirements to assure timely production from existing leases.

(b) Meet with Western Governors to explore regional questions on economic, environmental and social impacts associated with new Federal coal leases.

(c) Design a program of new coal leasing consistent with timely development and adequate return on public assets, if proper environmental safeguards can be provided.

7. Electric Utilities -- The President is asking the Congress for legislation concerned with utilities. In recent months, 60% of planned nuclear capacity and 30% of non-nuclear capacity additions have been postponed or cancelled by electric utilities. Financing problems are worsening and State utility commission practices have not assured recovery of costs and adequate earnings. The transition from oil and gas-fired plants to coal and nuclear has been slowed greatly -- contributing to pressure for higher oil imports. Actions involve:

(a) Uniform Investment Tax Credit (Legislative) -- an increase in the investment tax credit to eliminate the gap between utilities and other industries -- currently a 4% rate applies to utilities and 7% to others.

(b) Higher Investment Tax Credit (Legislative) -- An increase in investment tax credit for all industry, including utilities, for 1 year -- to 12%. The 12% rate would be retained for two additional years for all power plants except oil and gas-fired facilities.

(c) Preferred Stock Dividend Deductions (Legislative) -- A change in tax laws applicable to all industries, including utilities, which allows deductions of preferred stock dividends for tax purposes to reduce the cost of capital and stimulate equity rather than debt financing.

(d) Mandated Reform of State Utility Commission Processes (Legislative) -- The legislation would selectively reform utility commission practices by: (1) setting a maximum limit of 5 months for rate or service proceedings; (2) requiring fuel adjustment pass-throughs, including taxes; (3) requiring that construction work in progress be included in a utility's rate base; (4) removing any rules prohibiting a utility from charging lower rates for electric power during off-peak hours and (5) allowing the cost of pollution control equipment to be included in the rate base.

(e) Energy Resources Council Study (Administrative) -- Review and report to the President on the entire regulatory process and financial situation relating to electric utilities and determine what further reforms or actions are needed. ERC will consult with State utility commissions, governors, public utilities and consumers.

8. Nuclear Power -- To accelerate the growth of nuclear power which supplies only one percent of our energy needs, the President is proposing, in addition to actions outlined above:

(a) Expedited Licensing and Siting (Legislative) A Nuclear Facility Licensing Act to assure more rapid siting and licensing of nuclear plants.

(b) 1976 Budget Increase (Legislative) -- An increase of $41 million in appropriations for nuclear safety, safeguards, and waste management.

9. Energy Facilities Siting (Legislative) -- Legislation would reduce energy facility siting bottlenecks and assure sites for needed facilities with proper land use considerations:

(a) The legislation would require that states have a comprehensive and coordinated process for expeditious review and approval of energy facility applications; and state authorities which ensure that final State energy facility decisions cannot be nullified by actions of of local governments.

(b) Provision for owners of eligible facilities or citizens to sue States for inaction.

(c) Provide no Federal role in making case by case siting decisions for the States.

(B) Energy Conservation Actions

The President announced a number of energy conservation measures to reduce demand, including:

1. Auto Gasoline Mileage Increases (Administrative) -- The Secretary of Transportation has obtained written agreements with each of the major domestic automobile manufacturers which will yield a 40 percent improvement in fuel efficiency on a weighted

average for all new autos by 1980 model year. These agreements are contingent upon relaxation of Clean Air Act auto emission standards. The agreement provides for interim goals, Federal monitoring and public reporting of progress.

2. Building Thermal Standards (Legislative) -- The President is asking Congress for legislation to establish national mandatory thermal (heating and cooling) efficiency standards for new homes and commercial buildings which would save the equivalent of over one-half million barrels of oil per day by 1985. Under this legislation:

(a) The Secretary of Housing and Urban Development shall consult with engineering, architectural, consumer, labor, industry, and government representatives to advise on development of efficiency standards.

(b) Thermal standards for one and two-family dwellings will be developed and implementation would begin within one year. New minimum performance standards for energy in commercial and residential buildings would be developed and implemented as soon thereafter as practicable.

(c) Standards would be implemented by State and local governments through local building codes.

(d) The President also directed the Secretary of Housing and Urban Development to include energy conservation standards in new mobile home construction and safety standards.

3. Residential Conservation Tax Credit -- The President is asking Congress for legislation to provide incentives to homeowners for making thermal efficiency improvements in existing homes. This measure, along with a stepped-up public information program, could save the equivalent of over 500,000 barrels per day by 1985. Under this legislation:

(a) A 15 percent tax credit retroactive to January 1, 1975 for the cost of certain improvements in thermal efficiency in residences would be provided. Tax credits would apply to the first $1,000 of expenditures and can be claimed during the next three years.

(b) Improvements such as storm windows, and insulation, would qualify for the tax credit.

4. Low-Income Energy Conservation Program (Legislative) -- The President is proposing legislation to establish a Low-Income Energy Conservation Program to offer direct subsidies to low-income and elderly homeowners for certain energy conservation improvements such as insulation. The program is modeled upon a successful pilot program in Maine.

(a) The program would be administered by FEA, under new legislation, and the President is requesting supplemental appropriations in 1975 and $55 million in fiscal year 1976.

(b) Acting through the States, Federal funds would be provided to purchase materials. Volunteers or community groups could install the materials.

5. Appliance Efficiency Standards (Administrative) -- The President directed the Energy Resources Council to develop energy efficiency goals for major appliances and to obtain agreements within six months from the major manufacturers of these appliances to comply with the goals. The goal is a 20% average improvement by 1980 for all major appliances, including air conditioners, refrigerators and other home appliances. Achievement of these goals would save the equivalent of over one-half million barrels of oil per day by 1985. If agreement cannot be reached, the President will submit legislation to establish mandatory appliance efficiency standards.

6. Appliance and Auto Efficiency Labelling Act (Legislative) -- The President will ask the Congress to enact a mandatory labelling bill to require that energy efficiency labels be placed on new appliances and autos.

(C) Emergency Preparedness

The President announced that comprehensive energy emergency legislation will be proposed, encompassing two major components.

1. Strategic Petroleum Storage (Legislative) -- Development of an energy storage system of one billion barrels for domestic use and 300 million barrels for military use. The legislation will

authorize the government to purchase and prepare the storage facilities (salt domes or steel tanks), while complex institutional questions are resolved and before oil for storage is actually purchased. FEA will develop the overall program in cooperation with the Department of the Interior and the Department of Defense. All engineering, planning, and environmental studies would be completed within one year. The 1.3 billion barrels will not be complete for some years, since time is required to purchase, prepare, and fill the facilities.

2. Standby and Planning Authorities (Legislative) -- The President is requesting a set of emergency standby authorities to be used to deal with any significant future energy shortages. These authorities would also enable the United States to fully implement the agreement on an International Energy Program between the United States and other nations signed on November 18, 1974. This legislation would include the authority to:

(a) Implement energy conservation plans to reduce demand for energy;

(b) allocate petroleum products and establish price controls for allocated products;

(c) ration fuels among end users;

(d) allocate materials needed for energy production where such materials may be in short supply;

(e) increase production of domestic oil; and

(f) regulate petroleum inventories.

III. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET LONG-TERM GOALS (BEYOND 1985)

The expanded research and development program on which the nation is embarked will provide the basis for increasing domestic energy supplies and maintaining energy independence. It will also make it possible in the long run for the U.S. to export energy supplies and technology to others in the free world. Important elements are:

(A) Synthetic Fuels Program (Administrative) -- The President announced a National Synthetic Fuels Commercialization Program to ensure at least one million barrels per day equivalent of synthetic fuels capacity by 1935, using technologies now nearing commercial application.

1. Synthetic fuel types to be considered will include synthetic crude from oil shale and a wide range of clean solid, liquid, and gaseous fuels derived from coal.

2. The Program would entail Federal incentives (possibly including price guarantees, purchase agreements, capital subsidies, leasing programs, etc.), granted competitively, and would be aimed at the production of selected types of gaseous and liquid fuels from both coal and oil shale.

3. The program will rely on existing legislative authorities, including those contained in the Federal Non-Nuclear Energy Research and Development Act of 1974, but new legislative authorities will be requested if necessary.

(B) Energy Research and Development Program -- In the current fiscal year, the Federal Government has greatly increased its funding for energy research and development programs. These Federal programs are a part of a much larger national energy R & D effort and are carried out in cooperation with industry, colleges and universities and others. The President stated that his 1976 Budget will continue to emphasize these accelerated programs which include research and the development of technology for energy conservation and on all forms of energy including fossil fuels, nuclear fission and fusion, solar and geothermal.

(C) Energy Research and Development Administration -- (ERDA) The President has signed an Executive Order which activates, effective January 19, 1975, the Energy Research and Development Administration. ERDA will bring together in a single agency the major Federal energy R & D programs which will have the responsibility for leading the national effort to develop technology to assure that the U.S. will have an ample and secure supply of energy at reasonable prices. ERDA consolidates major R & D functions previously handled by the AEC, Department of the Interior, National Science Foundation and Environmental Protection Agency. ERDA will also continue the basic research, nuclear materials production and weapons programs of the AEC.

IMPACTS OF NEAR AND MID-TERM ACTIONS ON PETROLEUM CONSUMPTION AND IMPORTS

NEAR TERM PROGRAM
(MMB/D)

	1975	1977
CONSUMPTION IF NO NEW ACTIONS	18.0	18.3
IMPORTS IF NO NEW ACTIONS	6.5	8.0
		IMPORT SAVINGS
Less Service Savings by Short-term Actions:	1975	1977
Production from Elk Hills	0.2	0.3
Coal Conversion	0.1	0.3
Tax Package	0.9	1.6
TOTAL IMPORT SAVINGS	1.2	2.2
REMAINING IMPORTS	5.3	5.8

MID-TERM PROGRAM

CONSUMPTION IF NO NEW ACTIONS	23.9 MMB/D	
IMPORTS IF NO NEW ACTIONS	12.7 MMB/D	
Less Savings Achieved by Following Actions:	1985 IMPACT ON IMPORTS	
OCS Leasing	1.5	
NPR-4 Development	2.0	
Coal Conversion	0.4	
Synthetic Fuel Commercialization	0.3	
Auto Efficiency Standards	1.0	
Continuation of Taxes	2.1	
Appliance Efficiency Goals	0.1	
Insulation Tax Credit	0.3	
Thermal Standards	0.3	
Total Import Savings by Actions		8.0
Remaining Imports		4.7
Less:		
Emergency Storage	3.0	
Standby Authorities	1.7	
NET IMPORT VULNERABILITY		0

INTERNATIONAL ENERGY POLICY AND FINANCING ARRANGEMENTS

BACKGROUND

The cartel created by the Organization of Petroleum Exporting Countries (OPEC) has successfully increased their governments' price for exports of oil from approximately $2 per barrel in mid 1973 to $10 per barrel today. Even after paying for their own increased imports, OPEC nations will report a surplus of over $60 billion in 1974, which must be invested. Oil price increases have created serious problems for the world economy. Inflation pressures have been intensified. Domestic economies have been disrupted. Consuming nations have been reluctant to borrow to finance their oil purchases because of current balance of payments risks and the burden of future interest costs and the repayment of massive debts. International economic relations have been distorted by the large flows of capital and uncertainties about the future.

U.S. POSITION

The United States believes that the increased price of oil is the major international economic problem and has proposed a comprehensive program for reducing the current exorbitant price. Oil importing nations must cooperate to reduce consumption and accelerate the development of new sources of energy in order to create the economic conditions for a lower oil price. However, until the price of oil does decline, international stability must be protected by financing facilities to assure oil importing nations that financing will be available on reasonable terms to pay for their oil imports. The United States is active in developing these financing programs. Once a cooperative program for energy conservation and resource development and the interim financing arrangements are agreed upon, it will be possible to have constructive meetings with the oil producers.

ACTIONS TAKEN BY OIL CONSUMING NATIONS

The oil consuming nations have already created the International Energy Agency to coordinate conservation and resource development programs and policies for reacting to any future interruption of oil exports by producing nations. The four major elements of this cooperative program are:

An emergency sharing arrangement to immediately reduce member vulnerability to actual or threatened embargoes by producers

A long-term cooperative program to reduce member nation dependence on imported oil,

A comprehensive information system designed to improve our knowledge about the world oil market and to provide a basis for consultations among members and individual companies; and

A framework for coordinating relations with producing nations and other less developed consuming countries.

The International Energy Agency has been established as an autonomous organization under the OECD. It is open to all OECD nations willing and able to meet the obligations created by the program. This international agreement establishes a number of conservation and energy resources development goals but each member is left free to determine what domestic measures to use in achieving the targets. This flexibility enables the United States to coordinate our national and international energy goals.

OTHER U.S. ACTIONS AND PROPOSALS

The United States has also supported programs for protecting international stability against distorting financial flows created by the sudden increase of oil prices. Although the massive surplus of export earnings accumulated by the producing nations will have to be invested in the oil consuming nations, it is unlikely that these investments will be distributed so as to match exactly the financing needs of individual importing nations. Fortunately the existing complex of private and official financial institutions has, in the case of the industrialized countries, been effective in redistributing the massive oil export earnings to date. However, there is concern that some individual industrialized nations may not be able to continue to obtain needed funds at reasonable interest rates and terms during the transition period until supplies are increased, conservation efforts reduce oil imports and the price of oil declines. Therefore, the United States has supported various proposals for "reshuffling" the recycled funds among oil consuming nations, including:

Modification of International Monetary Fund (IMF) rules to permit more extensive use of existing IMF resources without further delay;

Creation of a financial solidarity facility as a "safety net" for participating OECD countries that are prepared to cooperate in an effort to increase conservation and energy resource development actions to create pressure to reduce the present price of oil;

Establishment of a special trust fund managed by the IMF which would extend balance of payments assistance to the most seriously affected developing nations on a concessional basis not now possible under IMF rules. The United States hopes that oil exporting nations might contribute a major share of the trust fund and that additional resources might be provided through the sale of a small portion of the IMF's gold holdings in which the differential between the original cost of the gold and the current market price would be added to the trust fund; and

An increase in IMF quotas which would make more resources available in 1976.

These proposals will be discussed at ministerial level meetings of the Group of Ten, the IMF Interim Committee and the International Monetary Fund/International Bank for Reconstruction and Development Committee in Washington, D.C. January 14 to 17.

In these meetings, the United States will continue to press its views concerning the fundamental importance of international cooperation to achieve necessary conservation and energy resources development goals as a basis for protecting our national security and underlying economic strength.

# # #

GPO 882-978

EMBARGO FOR RELEASE UNTIL
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OUTLINE OF ENERGY QUESTIONS AND ANSWERS

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- Data History and Forecasts

NEAR-TERM ACTIONS

- Import Fee, Tax and Decontrol
- Naval Petroleum Reserve

MID-TERM PROGRAM

- Outer Continental Shelf Production
- Domestic Price Uncertainty
- Clean Air Act Amendments
- Strip Mining Legislation
- Coal Leasing and Prices
- Electric Utilities
- Energy Facility Siting
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EMERGENCY PLANNING MEASURES

- Emergency Storage
- Standby Authority

LONG-TERM ACTIONS

- Research and Development

ECONOMIC IMPACT

INTERNATIONAL

GENERAL

BACKGROUND

DATA HISTORY AND FORECASTS

Q. Has demand for petroleum products increased since the embargo?

A. Domestic consumption of energy is now beginning to increase again and is estimated to keep growing, although at a slower rate than prior to the embargo. The latest figures show total domestic demand to be at 18.2 million barrels per day (MMB/D) as compared to 17.7 MMB/D at the close of 1973. Gasoline consumption dropped 3.4 percent during the first 9 months of 1974 (as compared to 1973), but has increased since September .bu about 300,000 barrels per day.

Q. What about production and import levels?

A. Domestic oil procuction continues to decline as older fields have reached their peak. During the first eleven months of 1974, domestic production averaged 8.8 MMB/D as compared to 9.2 MMB/D in 1973. As a result, imports continue to rise even with present high prices. We are now importing 7.3 MMB/D (average of 6.8 MMB/D in last quarter of 1974), as compared to 6.5 MMB/D in October, 1973, the month prior to the embargo.

Q. What about coal production?

A. Coal (approximately 20 percent of domestic energy production) was the only major energy source that showed increased output during the first three quarters of 1974. Coal production in October was 5 percent above its level for the same period in 1973. However, the strike in November interrupted coal output and the industry has not yet regained former production levels.

Q. Do you foresee any shortages in the next 6 months?

A. We do not expect shortages of petroleum products but we do project large shortages for natural gas, as high as 14%. The greatest impact will be felt by electric utilities and industries that receive natural gas on an interruptible contract basis. These curtailments of natural gas have already had a serious impact on employment.

Q. How high are current inventories?

A. FEA figures indicate that December, 1974 crude oil stocks were about 20 million barrels higher (this is an adjusted figure to account for disparities between the American Petroleum Institute and FEA reporting methods) than the same period of 1973. Similarly, stocks for refined petroleum products were higher in December 1974 than the corresponding month in 1973 due to reduced demand and increased imports. Coal stocks, however, are down as a result of the recent UMW strike.

NEAR-TERM ACTIONS

IMPORT FEE, TAX AND DECONTROL

Q. Will the fee on imports create additional profits for the oil companies?

A. No, the import fee, by itself, will not increase industry profits. However, the fee will place an upward pressure on the price for crude. Since the price for uncontrolled domestic crude will rise to meet the world price, industry profits will also rise. This is why we are calling for a windfall profits tax as part of the energy proposals. It will be retroactive to collect any profits caused by Administrative actions.

Q. Won't certain areas of the country which are heavily dependent on crude oil or product imports suffer a disproportionate burden as a result of the tariff?

A. No. The FEA is currently administering a program which substantially equalizes the cost of crude oil to all domestic refiners. This crude equalization program aids refiners with high crude costs at the expense of other refiners which have access to price-controlled domestic crude. Further, the product fees will be less than crude fees; there will be a $3 fee on crude and a $1.20 fee on refined products in April.

Q. How does a tax or fee achieve our national energy goals?

A. As a result of these measures, petroleum products will become more expensive relative to other goods and services, thereby encouraging conservation and discouraging consumption. Also, making imports more expensive than domestic supplies of petroleum encourages the production of domestic crude oil.

Q. Will the fee help to lower world crude prices and protect us from another embargo?

A. The fee program will help to reduce our imports of foreign oil by reducing our overall demand. As a result, we will have less demand for products from some OPEC nations. To this extent, it may affect some prices being charged by certain OPEC nations. But overall, the fee will have a minimal effect on lowering world crude prices in the immediate future.

Q. Why didn't you tighten the mandatory allocation program which you already have authority to administer rather than raising prices? Why not rationing?

A. The mandatory allocation program was designed in response to an emergency situation, and does not address the more basic economic issues. A tighter mandatory allocation program could necessitate a significant increase in the Federal bureaucracy and could mean a return to the long gasoline lines we experienced last winter. Additionally, rationing and price control programs are inevitably discriminatory against those who would enter the market and provide competition.

While the Administration's program, which relies on the market forces, is more effective, the President announced his intention to guarantee reaching the goals by using his authority to limit imports if necessary.

Q. How much more expensive will gasoline and other products be?

A. On the average, if costs of a crude import $3 fee are spread evenly among all products, prices of gasoline and other petroleum products refined from the higher priced imported crude could rise as much as 5 cents per gallon (controlled domestic oil will stay at the same price).

The total tax package and decontrol would ultimately add about $4 a barrel (10 cents per gallon) to the average costs of all products.

Q. What are the limits to the President's power to institute a fee?

A. The President may impose a fee in response to a national security finding and should be established at that amount sufficient to offset the threat to national security.

Q. What additional actions are you asking from Congress?

A. In conjunction with the establishment of the fee, we are asking Congress for an excise tax on domestic crude oil (and will maintain a fee on all imports), the decontrol of old crude oil, deregulation of new natural gas, windfall profits tax, and a natural gas excise tax.

Q. What are the differences between a tax, a fee and a tariff?

A. All three are charges which can be used to produce revenue and all three have the effect of reducing demand. The differences lie in the source of authority to levy the charge. A tax must be levied by Congress for the purpose of raising domestic revenue. A tariff is a charge against imports and must also be authorized by the Congress. A fee is also levied on imported material but may be set for non-revenue purposes and need not be legislated.

Q. How much oil will the combined tax/fee program save?

A. The overall tax-package will save an estimated 1.6 MMB/D in 1977 and about 1.0 MMB/D in 1975.

Q. Will there be rationing?

A. No, not unless another emergency embargo situation necessitates it.

Q. Why not?

A. Rationing will not solve our long-term problems and will create severe energy disruptions in life-styles and would require a large bureaucracy to administer.

Q. Wouldn't it be better to reduce demand by imposing import quotas instead of raising prices through a fee?

A. No, it would not. Import quotas can cause disparities in the marketplace by mandating specific, allowable levels of products into the country. By raising prices via a fee, the individual consumer can determine in what areas to conserve. While we are not considering the use of import quotas at this time, we will submit legislation requesting the authority to use tariffs, import quotas or other measures to achieve energy price levels necessary to reach our goals. The Message stated that Presidential power to limit oil imports would be used if necessary.

Q. What is the effect of decontrolling domestic old oil?

A. Prices on the domestic market will rise to meet world oil prices, and oil industry profits will also rise. This is why we must have immediate enactment of a windfall profits tax - to preclude this from happening.

Q. Why are you requesting the deregulation of natural gas prices?

A. I want to let the free market work to the maximum extent possible. The deregulation of natural gas prices will greatly encourage higher production levels in the long run. As you know, we are currently faced with a natural gas shortage of 14 percent for this winter. In the short run, higher prices will serve to lessen demand and will therefore mitigate the severity of this projected shortage.

Q. Isn't the ultimate effect of this action going to be increased prices to the consumer?

A. Yes, this will be the effect. We estimate that the typical monthly natural gas bill to the consumer would increase by about $8 by 1985. The alternative to deregulation is less natural gas and higher costs for other fuels, such as petroleum and electricity.

Q. How much will natural gas prices rise in the next few years?

A. We estimate that, as a result of deregulation, the average natural gas prices will rise from 31¢/mcf in the interstate market in 1974, to 35¢/mcf in 1975; 38¢/mcf in 1976; and 41¢/mcf in 1977. The average national natural gas price will be higher, because intrastate gas is not controlled.

The estimated market clearing price for natural gas is 99¢/mcf, and would be reached by 1985.

Q. Why are you placing an excise tax on domestic natural gas?

A. The excise tax on natural gas will approximate the excise tax and import fees on oil on a Btu equivalency basis. It will also inhibit preference for natural gas over oil. This tax will reduce the curtailment problem and lessen negative employment effects.

Q. How much will the production of old oil be stimulated by price decontrol?

A. We estimate that price decontrol could result in an additional 1-2 MMB/D of crude oil production in the next 3-4 years.

Q. What are the advantages of an import fee over a gasoline tax?

A. An import fee covers all crude and product imports and spreads the effects of demand reduction more evenly than a gas tax. The gasoline tax would have to be very large to save an equivalent amount of oil -- at least 30¢ per gallon -- and it would severely affect the already depressed automobile industry and numerous related industries.

Q. Why doesn't the Administration provide priority treatment in domestic production of crude oil relative to the levying of tariffs and excise taxes? For example, the fee on imported crude could be $2.00 per barrel, whereas, the domestic excise tax would be at $1.50. Won't such action encourage domestic exploration as a result of an additional financial incentive?

A. The immediate import fees will raise the prices of imports relative to domestic production. In the long-run, and at the margin, decontrolled domestic crude would rise to the same selling price as foreign crude, and any differential in taxes would probably only result in additional profits. Further, decontrol of old oil and higher prices should provide sufficient incentives to produce.

NAVAL PETROLEUM RESERVES

Q. What is your specific proposal with regard to the Naval Petroleum Reserves?

A. There are two proposals involved. We have asked Congress to permit production of the Elk Hills, California, Naval Petroleum Reserve (NPR-1) under Navy control and are submitting legislation to the Congress to authorize the exploration, development and production of NPR-4 in Alaska. The oil produced from NPR-1 would be used to top off all Defense Department storage tanks with the remainder to be sold at auction or exchanged for refined petroleum products used by the Department of Defense. The production from NPR-4 would provide petroleum for the domestic economy as well as for defense needs.

Q. Who will have Government authority for developing NPR #1?

A. I have asked the Congress to permit production of the Elk Hills Naval Petroleum Reserve under Navy control.

Q. How quickly can NPR-1 and NPR-4 be brought onstream?

A. NPR-1 can produce 160,000 barrels per day within a few months and 300,000 barrels per day by 1977. NPR-4 will take longer to produce as exploration and development must first take place.

Q. Can we use the Trans-Alaska Pipeline to move NPR-4 oil?

A. No. North Slope oil production will fill the capacity of the Trans-Alaska Pipeline and thus new transportation facilities will be needed for NPR-4.

Q. What is the time frame and cost involved in retrieving oil and gas from NPR-4 in Alaska?

A. The development of NPR-4 will require several years and production is not expected before 1982 at the earliest. The cost would be more than $400 million if exploration is done by the Government. If any part of NPR-4 is leased commercially, revenues could more than offset costs. It is estimated that about two million barrels per day can be produced in NPR-4.

MID-TERM PROGRAM

OUTER CONTINENTAL SHELF PRODUCTION

Q. How do you know there are sufficient quantities of oil and gas in the Outer Continental Shelf to make its development worthwhile?

A. We don't know for sure that there are sufficient quantities for development although geological formations indicate that there may be. We are reaffirming our intention to continue an aggressive exploration and development policy.

Q. What will be done to insure that the environmental impacts of oil and gas development in the OCS and other frontier areas will be kept to safe levels?

A. We already have an extensive body of law designed to protect these areas from unacceptable levels of environmental damage and a whole new level of technology (environmental monitoring protection) has been developed in response to these new laws. In the field of oil and gas development technical procedures and equipment are now in use designed to prevent oil spills and to minimize and control them once they occur. In addition the development of environmental baselines and the requirement to monitor the sites under development insures that any adverse effects will be detected early to allow proper and effective counteraction.

The Council on Environmental Quality conducted an extensive study of oil and gas exploration in the offshore areas of the U.S. and concluded that with proper safeguards, these areas can be safely developed. The Department of the Interior has now adopted literally all of the recommendations of the CEQ report.

In addition, new funds are being requested for coastal zone management to investigate and develop further the additional safeguards needed to protect our environment. Of course, before any leasing of frontier areas is done, there will be extensive public hearings and environmental impact statements to advise the public of the safeguards being taken.

DOMESTIC PRICE UNCERTAINTY

Q. How would you determine when our vulnerability to pressure from oil exporting countries is high enough to make a price floor or other measure desirable?

A. Our vulnerability becomes unacceptable when our expected level of imports could not be completely replaced by emergency storage and standby actions. If the price of imported oil declines considerably, demand for oil would increase and import levels would get much higher.

Q. What is the difference between a quota and a price floor on imports?

A. A quota is designed to restrict the actual amount of imports into the country while a price floor sets a minimum price for imports so that domestic fuels will remain economically competitive with foreign sources.

Q. Wouldn't price floors maintain oil prices you have claimed are exorbitant?

A. We would have no intention of setting a floor price at current world oil price levels ($11-12 per barrel). Rather, price floors could conceivably be set at a significantly lower level and still keep traditional domestic sources economic.

CLEAN AIR ACT AMENDMENTS

Q. Will the Clean Fuels Deficit be eliminated by your proposed energy actions?

A. Yes. The Clean Fuels Deficit is a term used to describe the potential shortage of low sulfur coal needed to meet emission limitations in 1975 and beyond. This shortage of low sulfur coal was at one point estimated to be as high as 200 million tons by mid-1975. The alternatives to these actions would be to curtail coal burning, thereby curtailing electric energy generation, or to import low sulfur oil to fill the low sulfur coal gaps, thereby increasing our oil imports. The actions I propose include voluntary revision of State emission limitations, implementation of supplementary control systems and extensions of compliance deadlines to eliminate this problem.

Q. By relaxing auto emission requirements, aren't you letting the auto industry off the hook and at the same time lowering the quality of our air?

A. No. We are actually moving to a tougher standard than now in force. I would like to emphasize that compliance with the legislative standards will still be required and cleaner air will thus be achieved. The interim standards set carbon monoxide and hydrocarbon emissions at the current California levels (9.0 grams and .9 grams per mile respectively) and NO_X emissions at 3.1 grams per mile for all States except California, where 2.0 grams per mile will still be required. Thus, the quality of our air will not be significantly impaired nor will we be retreating to the uncontrolled emission levels allowed before the passage of the Clean Air Act.

The proposal to extend the time required to comply with the original 1977 auto emission standards is based on the need to balance fuel conservation with the Clean Air Act requirements; simply proceeding with the present schedule for emission controls would have involved the additional consumption of 1 1/2 to 5 1/2 billion gallons of gasoline per year by 1980. By extending the time required to comply with the final emission limitations we achieve fuel conservation in the form of a 40 percent fuel efficiency improvement.

Q. What are your plans for stack gas scrubbers?

A. Certainly some types of scrubbers have not reached the level of effectiveness that other designs have reached. However, scrubbers will play an important role in our future expanded use of coal. By 1985, we expect that all plants which need scrubbers will have them.

Q. Won't the Clean Air Act (CAA) and the Energy Supply and Environmental Coordination Act (ESECA) Amendments which you are proposing mean a retreat from our present efforts to clean the nation's air?

A. No, it will not. There will be a delay in achieving certain standards but the commitment remains firm.

The purpose of these proposed amendments is to facilitate the use of coal thereby reducing our dependence on imported oil and to resolve the clean fuels shortage created by the unavailability of low sulfur coal and stack gas scrubbers. In no way are they intended to trade off our environmental needs for some quick energy solutions.

Q. How will your plan to convert electric utilities from oil to coal affect air quality?

A. There may be an absolute increase in air pollution as a result of converting from oil to coal but the burning of coal itself will not adversely affect air quality since all coal conversion candidates will have to develop plans for complying with primary air quality standards. These plans must be approved by the Environmental Protection Agency before conversion orders may be placed in effect. In certain instances, an oil burning facility required to convert to coal may have difficulty obtaining the necessary low sulfur coal or pollution control equipment. Such facilities will not be converted unless they can comply with ambient air quality standards which protect health.

Q. It has been reported that the delays you propose in auto emission requirements represent a deal with Detroit to gain your 40% fuel efficiency goal -- is this true?

A. No, there is no deal involved. But this action is a recognition of the technical limitations that now exist in trying to meet both the auto emission requirements as they presently exist and the 40% increased fuel efficiency goal. By allowing for the delay we are providing for a more gradual and less disruptive development of emission control equipment while at the same time achieving a 40% increase in fuel efficiency.

STRIP MINING LEGISLATION

Q. How will your proposed strip mining bill differ from the proposed bill which Congress developed and you vetoed?

A. On December 30, 1974, I gave my objections to the strip mining bill proposed by Congress. The Congressional bill would have resulted in a reduction in coal production, and also contained too many vague and unclear requirements that could have led to an extensive litigation between the Federal Government and various private interest groups. The bill I will propose will be similar in many respects to the bill developed by Congress but amended to minimize these objections.

COAL LEASING AND PRICES

Q. Why do we need increased coal leasing in the United States?

A. In order for the nation to meet the goals I have announced, we must act quickly to remove constraints and provide new incentives for domestic production. We must focus our production capability on coal as it is our most abundant domestic resource. The Federal Government owns over 200 billion tons of coal reserves, but only 6 billion tons are currently scheduled to support production by 1980. Thus, we should move ahead to design a new program of coal leasing and should speed up production from these leases, providing the environmental impact of these actions is acceptable.

Q. What was the effect of the United Mine Workers strike on coal prices?

A. Coal prices rose substantially on the spot market in anticipation of and during the UMW strike. The cost of the new UMW contract will add approximately $2-3 to the price of a ton of coal in 3 years. Other factors continue to exert upward pressure on coal prices, the most notable of which is the return to the use of less expensive coal in place of higher priced oil by electric utilities.

Q. Even though the reserves are there, can the coal industry produce as much coal as we need in the short term?

A. If we eliminate the uncertainties surrounding coal production, we can substantially close the gap between coal supply and demand. The program I have outlined addresses all these uncertainties (stripmining legislation, coal leasing, Clean Air Act implementation, oil import policy, natural gas pricing policy and electricity demand) and should serve to assure an increased production of coal. We may not, however, be able to assure that coal production meets our demands in the very near future due to the current high oil prices and the shortage of natural gas which heightens coal use. Increased coal production is also constrained by manpower and equipment shortages in the short term.

ELECTRIC UTILITIES

Q. What legislative changes are you proposing for electric utility rate structures?

A. The legislation we are proposing will require state regulatory authorities to permit the utilities under their jurisdiction to generate sufficient revenues to cover costs during a period of rapid inflation and heavy capital expansion requirements.

Three of the provisions, including the cost of construction work in progress in the rate base mandating fuel adjustment pass-throughs, and setting a 5 month maximum processing time for regulatory hearings, would require all authorities to adopt procedures that are now being used in many jurisdictions.

The off-peak pricing proposal would prevent authorities from limiting electric utilities in their efforts to increase revenues by selling more power during slack demand periods.

Q. You said you would take further actions to aid electric utilities if necessary. What actions do you anticipate?

A. At this time, more than 60 percent of all planned nuclear plants have been delayed or cancelled. The Energy Resources Council will be working with the utilities and, if warranted, we will propose additional measures to get these plants going again.

Q. Many of these proposals will lead to increases in utility rates. How large will these increases be?

A. The inclusion of Construction Work in Progress in the rate base would add about 11 percent a year to prices and the limitation on rate decision delay would add about 5 percent next year, and probably less thereafter. The other proposals would add 1 to 2 percent to rates. In all, for the first full year in which the charges would take effect, the additional increase would be almost 20 percent.

Q. Why are you proposing rate increases in a time of double-digit inflation?

A. The increases in cost of electricity must be paid either directly by consumers, or indirectly through Government subsidy. Direct increases will cut back demand and reduce the overall increase required. A Government subsidy, on the other hand, means that everybody pays, whether they use more or less. Therefore, price increases for electricity will assure that those who use more, pay more.

Q. I'm using less electricity but paying more. Why?

A. Under last year's unusual circumstances (unprecedented oil price increases) the average per unit cost of electricity to industry rose 55 percent and 20 percent to residential consumers. This increase was so large that it offset most efforts to cut consumption. Rates should not increase as fast this year.

Q. Isn't the electric utility industry already making record profits?

A. Profits did increase through 1973. However, in 1974, they began to decline. For the first three quarters of 1974, aggregate profits for the utility industry declined by about 7 percent from those of the equivalent period of 1973. The critical issue, however, is that investor-owned electric utilities are now earning less than three times their total interest charges. A number of utilities are only barely meeting statutory requirements for interest coverage.

Q. How do you intend to monitor what electric utilities pay for fuel to make sure they are trying to be as cost-conscious as possible?

A. Our proposal calls for the appropriate local regulatory authority to allow a justified fuel pass-through. It will continue to be the function of that authority to oversee these regulations.

Q. If investor-owned utilities are unable to remain solvent without Federal intervention, why aren't you proposing public ownership at the State/municipal level or nationalization?

A. Public ownership as a solution implies that such ownership can solve the problem more cheaply. However, there is no consensus that publicly owned power is cheaper than privately owned power in the United States, except to the extent that it receives subsidization through cheaper capital and lower taxes. Such subsidy would tend to stimulate consumption relative to private ownership, and would be more expensive in the long run.

Q. Aren't you suggesting an infringement of states' rights? Isn't this unconstitutional?

A. While regulation of utility rates has traditionally been under State jurisdiction, the interest of the country as a whole is at stake. Specifically, the Interstate Commerce Clause gives the Federal Government the authority to regulate activities that affect interstate commerce - and it has been determined that consumption of electricity does affect interstate commerce. Most of these proposals are not new and already exist in many states. What we propose will establish uniformity across the nation resulting in more equitable treatment of all public utilities.

ENERGY FACILITY SITING

Q. What will the role of the States be in energy facility siting?

A. Under the proposed facilities siting legislation, States will be required to develop and submit comprehensive management plans to the FEA for the siting and construction of needed energy facilities within their boundaries. Each management plan will have to be approved by the FEA before State implementation may begin.

Q. What if FEA does not approve a plan?

A. If a State fails to formulate an acceptable plan, the FEA Administrator may promulgate an energy facility management program for the State to administer.

Q. Can a State veto an FEA promulgated plan?

A. No.

Q. Will the bill authorize FEA to overturn a State decision on a particular site application?

A. No. If a State fails to comply with the plans requirements in a particular case, the applicant may seek relief in the courts.

ENERGY CONSERVATION

Q. Are the specific conservation measures you've proposed tough enough to provide the petroleum demand reduction necessary to achieve the import goal in 1977?

A. Yes, they are. We are setting a goal to reduce imports by 2 MMB/D by the end of 1977. The savings from increased taxes and import fees amounts to 1.6 MMB/D while coal conversion will bring an 0.3 MMB/D oil saving. The development of Elk Hills Naval Petroleum Reserve will allow us to cut another 0.3 MMB/D from our import needs and additional conservation programs (public information, auto efficiency standards, thermal standards, voluntary appliance standards) will save even more.

Q. Why do we need long term conservation measures if, according to the Project Independence Report, accelerated development of our supplies alone will lead us to energy independence in 1985 if oil prices stay at $11 per barrel?

A. We need long term conservation goals specifically because we do not expect that the future price of world oil will be $11 and we do not want prices that high. Since the world price may drop considerably below $11 per barrel, we must make sure that the resulting increased demand will not increase our imports. We also need to stop using energy wastefully and to preserve our limited oil resources as much as possible.

Q. Will the conservation program you proposed result in attainment of the goal of one million barrels per day savings in imports for 1975 that you established in your energy message to Congress in October, 1974?

A. Yes. If it is all carried out -- higher prices resulting from the tariff and excise taxes, combined with the comparatively smaller immediate effects of specific conservation measures, such as the expanded conservation education program, the development of the Elk Hills Naval Petroleum Reserve, and coal conversion should provide us with at least one million barrels per day savings in projected imports by the fourth quarter of 1975.

However, attainment of this very near term goal is not enough. Our attention must turn to the far tougher goals of reducing our vulnerability to foreign supply curtailments through 1977, and eliminating it by 1985.

Q. If energy efficiency improvements in the home effectively reduce fuel costs, why is a tax credit needed for thermal improvements?

A. More and more Americans are highly mobile and do not remain in the same house for long periods of time. Because of this factor, and because it may take a few years to make thermal insulation pay off economically, a tax credit will encourage homeowners to insulate now regardless of how long they reside in the same house.

Secondly, because the economics of insulation do not pay off quickly, homeowners will have to pay higher first costs. In this period of recession many will find it difficult to pay higher first costs and a tax credit will help.

Q. Has the 55 m.p.h. speed limit been effective?

A. Yes. Lower speed limits are directly attributable to lower death rates on our highways and is a factor in reduced gasoline consumption. As you know, the President just signed into law a bill making the 55 m.p.h. speed limit a national mandatory limit for interstate highways and urges all State Governors to vigorously enforce this limit.

Q. What steps are you taking to assure that conservation goals are met by industry?

A. Members of the Administration have been meeting with industrial leaders on a regular basis to work out programs of industrial conservation. We are receiving commitments from these industries to conserve more energy and I am confident that industry is prepared to conserve as much as possible. If savings are not achieved by voluntary means, however, mandatory measures will be considered.

Q. Will the mandatory thermal standards delay recovery for the construction industry anticipated during the second half of 1975?

A. Since the mandatory thermal standards proposed will take six months to formulate, and subsequently will be implemented in a phased program over three years, this conservation action should have no impact on the recovery of construction expected during 1975.

Q. Why did you decide against mandatory appliance standards?

A. As in the case of automobile efficiency standards, before the Government should intervene in the marketplace, industry should be provided an opportunity to demonstrate that it can act responsibly and responsively to the higher value on energy. For this reason, we have allowed a short period for industry to voluntarily institute measures to increase energy efficiency in appliances and have asked the Energy Resources Council to work with industry to establish the voluntary standards.

Q. Why haven't you initiated any new public transportation programs?

A. We are already doing a number of things to stimulate use of mass transit, including a rapid increase in funds for its development. Additional actions have not been taken because they would only result in small additional savings of energy.

Q. Do you think your total energy program places as much emphasis on conservation as it does on resource development?

A. Yes. The program being proposed is a tough mandatory energy conservation program and relies heavily on conservation to reduce imports in the short-term.

EMERGENCY PLANNING MEASURES

EMERGENCY STORAGE

Q. What kind of specific authority are you requesting with regard to emergency storage?

A. We are requesting authority to create and maintain a strategic reserve capacity of more than 1 billion barrels of petroleum and petroleum products and the authority to determine under what circumstances and to what extent those reserves should be used during emergency situations. This is sufficient to provide 3 million barrels of oil per day for a full year.

Q. What is the benefit of a storage program to safeguard against an embargo if it won't be operational until 1980?

A. While it is true that a storage program won't be fully operational before 1980, it will provide some protection between now and then as stocks are gradually accumulated. Further, we will need the protection provided by a storage program after 1980, as the nation will continue to be dependent upon foreign imports to meet some portion of its energy needs. During this interim period, we will continue our efforts toward stringent conservation by all consuming nations.

Q. How will the program be financed and will the ownership be public or private?

A. We have not firmly established yet how the program will be financed or who will own the storage facilities. These questions will be fully explored later in the planning and engineering stage.

Q. What products will be stored - crude as well as refined products?

A. We currently anticipate that we will store predominantly crude oil, although there will probably be some storage of petroleum products, mainly for the needs of the Northeastern part of our country. The specific amounts of each type of storage will be determined in the planning stages.

Q. Why would oil be stored in salt domes located in the Gulf Coast, when other regions are heavily import dependent?

A. Suitable salt domes provide inexpensive storage facilities and are located near crude oil distribution centers, refineries, and transportation facilities. Thus, during an embargo, oil stored in salt domes will be readily available to all sections of the country at equitable cost.

Q. How will the military be provided for in the event of another embargo?

A. Of the 1.3 billion barrels of petroleum emergency storage capacity, 300 million barrels will be reserved for national defense needs in case of an emergency.

Q. Won't petroleum for storage have to be purchased from high priced foreign oil?

A. No. We will not purchase significant quantities of oil for at least a couple of years, at which time prices may have broken. In addition, our strategic reserves will be partially filled from domestic sources.

Q. Will we store all the oil in salt domes, or will some be stored in conventional tanks?

A. The type of storage facility, location and the mix of crude oil and product to be stored will be determined in a report to Congress one year after enactment of the Strategic Reserve Bill. However, preliminary studies indicate that crude oil will comprise the majority of the reserve and will be stored in salt domes, although there will probably be selected product storage in steel tanks.

STANDBY AUTHORITY

Q. What kind of standby authority are you asking for?

A. The main features of the proposed legislation to deal with emergency situations are:

- to allocate and control the price of domestic oil;
- to ration end use of energy directly if necessary;
- to implement energy conservation programs;
- to increase domestic oil production and allocate supplies of critical materials.
- to regulate and control petroleum inventories.

This legislation will also contain authority for the U.S. to comply with the International Energy Program requiring international sharing of oil in times of emergency.

Q. Why are you asking Congress for standby energy emergency authorities?

A. In an emergency situation, such as an embargo, the President should have the authority to act quickly and effectively to minimize the impact on this country. Furthermore, standby conservation authority is one of the requirements of the International Energy Plan. I must emphasize, however, that this is "standby" authority to be activated only in a time of crisis.

LONG-TERM ACTIONS

RESEARCH AND DEVELOPMENT

Q. What are you doing about solar energy development?

A. Federal funding for solar energy R&D has climbed from approximately $3 million in FY 1972 to approximately $50 million in FY 1975. The recently enacted Solar Heating and Cooling Demonstration Act of 1974 provides an additional $60 million over five years for developing and demonstrating solar heating and cooling technology. Planning is well underway to implement this program. The Solar Research and Development Act which was also just recently enacted authorizes another $75 million in FY 1976 for solar energy R&D. The Administration is continuing to review the requirements of the program to determine the appropriate level of funding that can be usefully spent over the next five years to develop solar energy technology.

Q. What are your specific proposals with regard to increasing nuclear R&D?

A. Nuclear energy holds great promise in satisfying our energy demand. Unfortunately, it now accounts for only 1% of our energy needs due to technical problems, construction delays, and other bottlenecks which have slowed its progress. We are markedly increasing the budget appropriation for nuclear waste disposal and for continued improvements in safeguards.

Q. Will your Synthetic Fuels Commercialization Program encourage oil shale development at the expense of the environment?

A. No. The program could lessen environmental impacts if we can learn to commercialize cleaner types of production, such as in-situ processing of oil shale. In addition, one of the important purposes of this program will be to investigate and determine the environmental problems associated with synthetic fuels development and to identify the solutions.

Only when we have developed commercially useable technologies which are environmentally acceptable will we proceed to the final step of full commercial implementation.

Q. Many environmentalists are concerned about the development and use of the nuclear breeder reactor -- what is the Administration's position on this issue?

A. We have continued support of an expanded R&D program for breeder reactors and will spend over $500 million in FY 76 to answer some of these questions.

All projections indicate that nuclear power will become an increasingly important source of electric power generation. However, for such growth to occur, nuclear fuel will need to be readily available, for our supply of economically available domestic nuclear fuel is limited. Thus, we must supplement this domestic supply by developing other supply sources.

The breeder reactor is one such supply source. Other sources of nuclear fuel and other methods for nuclear power generation are also being investigated.

Q. What role will ERDA play in achieving these goals?

A. ERDA's mission is to develop ways of using solar energy, geothermal energy, nuclear power, coal gasification and other new or undeveloped energy sources and will play a major role in achieving our long-term goals.

ECONOMIC IMPACT

ECONOMIC IMPACT

Q. What impact will be made on the Federal budget by those programs proposed within the energy message?

A. There will be very small budget impacts in FY 75. In FY 76 these programs could increase Federal obligations by 100-200 million dollars, mostly for conservation and facility siting programs, but of course those are more than offset by the revenues raised by the conservation tax measures.

The emergency storage program will be financed from a special fund which will utilize revenues from Naval Petroleum Reserve production.

Q. The Administration expects prices of energy and energy-intensive goods to rise, and plans to offset the impact by reducing income taxes. Won't this affect individuals and income groups differently? Will low-income households tend to be affected more? How does the Administration plan to assist low-income households?

A. Individuals and income groups will be affected differently by these proposals. What we can do and are doing is to provide a level of tax relief that will stimulate the entire economy for the benefit of all citizens. These tax cuts proposed by the Administration will provide relief to low-income households. In addition a rebate of $80 per adult will be provided to individuals whose incomes are so low that they do not pay taxes.

Q. What are the long run and short run effects of the President's program on the regional costs of energy?

A. While there will be some significant fuel price increases in the Northeast, the uneven regional effects will be dealt with through the existing cost equalization program and lower product import fees. In the longer term, regional effects will be handled by decontrolling the price of crude oil and thus eliminating any petroleum price differentials.

Q. What will the effects of the program be on the economy in terms of inflation and recession?

A. This program contains the balancing elements essential to meet the problems inherent in the existing economic environment. It will reduce our balance of payments, increase domestic resource development, and encourage recognition of the need for energy conservation and the fact that energy is no longer abundant. This program will produce higher prices in the short run which will result in a one-time increase in inflation, but will prepare us for dealing with future energy disruptions which could be devastating to our economy.

Q. How much will all your programs increase the average family's bills in a year?

A. This program is estimated to increase the average middle-income family's energy budget by about $250 in 1975.

Q. What will be the effect of this program on the dollar outflow for oil?

A. The United States spent $2.7 billion on petroleum imports in 1970. This dollar outflow rose to $23.6 billion in 1974. If no new actions are initiated, we estimate the petroleum revenue outflow to reach $32.1 billion in 1977 and $32.4 billion in 1985. With this program, we estimate outflows to be $21.3 billion in 1977 and $12.0 billion in 1985.

INTERNATIONAL

INTERNATIONAL

Q. How do you expect the OPEC producing countries to react to your energy program?

A. Most of the OPEC governments have urged on several occasions that the U. S. and other consumer countries adopt policies to encourage conservation and more rational energy use. Many of them have also suggested that the industrial countries accelerate the development of alternative energy sources to reduce demands on their non-renewable petroleum reserves. We believe these features of the President's program will be viewed favorably by the producing countries as well as by other importing countries.

Q. Will we get any North Sea oil? Mexican oil?

A. While the United States will strive to achieve energy independence, we will still have to import some oil and will try to import from relatively secure sources. We will pursue negotiations with Mexico and with North Sea oil producers to add imports from these areas.

Q. Regarding Canada's decision to phase out exporting crude to the U.S., what effect will this have on the U.S., particularly on the Upper Midwest supply and demand situation?

A. Domestic refiners in the upper Midwest will be obliged to obtain their crude oil from alternate sources. This will probably require the construction or expansion of pipeline capacity. Marketers in this region may be able to obtain refined products from Canada should a crude shortfall develop in the interim. Demand will be unaffected unless a severe product shortage arises, with its attendant gasoline lines and other inconveniences. Careful planning and timing should enable the change in supply patterns to take place with a minimum of disruptions in product availability or price.

GENERAL

GENERAL

Q. Do you believe that the National Environmental Policy Act (NEPA) is a hindrance to the development of domestic energy production?

A. No, I do not. NEPA was promulgated to insure that environmental concerns were considered in Government decision making. Because of this new, major consideration, decision making will in many instances take more time and require more detailed review than was required in the past. However, this process should ensure that the energy projects selected will maintain the quality of the environment.

Q. What would be the projected profit picture for the oil industry this year if a windfall profits tax were enacted? If one were not enacted?

A. Either way, we estimate that profits will be relatively constant this year. If we maintain price controls but do not enact a windfall profits tax, we can expect industry profits to remain stable. If we decontrol old oil and enact a tax, we can expect a small decrease in profits from last year's levels.

Q. What are you going to do about getting New England to build refineries?

A. The Administration intends to encourage refinery construction in all areas of the country and particularly in those in which there is a significant refining deficit. In New England, for example, it would be beneficial to have refining capability now and particularly if Atlantic OCS production begins. Refineries in that area could offset New England's extensive reliance on product imports and could create jobs.

Q. Why do we say that independence and self-sufficiency can now be attained in 1985 rather than 1980 as was earlier announced by President Nixon?

A. After a thorough review of potential domestic supply and demand for all fuels, on a regional basis, we have concluded that independence by 1980 cannot be attained. The lead-times for exploring and producing oil from new sources and for constructing new facilities is too great to expand domestic supply sufficiently.

Q. How can you propose great increases in resource development when it is a fact that there are acute shortages of materials and equipment throughout the economy?

A. At present, many categories of steel products, plate and tubular goods are in short supply. There is little that can be done to accelerate supply in the next 2-3 years and that is why this program concentrates on reducing demand. Within the 1975-1985 time period, however, new capacity will come on-stream and the problem will be eased.

Q. In compiling your energy message, whose statistical data did you rely on -- industry or government?

A. Ours. One of the real achievements in the last year was growth in the capability of the Federal government to provide its own energy data. The analyses in this program were developed by the government using its own reporting systems and analytical tools.

Q. What can the public do to contribute to the success of your program?

A. I am hoping that all Americans will support this program in every way possible. The most significant contribution the average consumer can make is in the area of energy conservation -- by installing thermally efficient insulation in their homes, by lowering thermostats, by driving 55 MPH and by driving less. The greatest contributions will come when we all learn how to conserve which is why I have requested an increase of $4 million in the government's public information program. We will try to explain the rationale and effects of this program to all Americans in the next several weeks.

Q. What is the effect of the Trans Alaska Pipeline on domestic supply plans and will it help the situation? Are there any plans to speed up construction? What about a second pipeline?

A. The Trans Alaska Pipeline will supply more than 2 MMB/D of domestic crude production, almost 20 percent above current production levels. To assure rapid completion of the pipeline, the Administration has already given priority to its requirements of equipment and materials. A second pipeline could be constructed later if necessary.

GPO 882-971

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GPO 882-971

SUMMARY

Description of Rationing System

- Each licensed driver in the country would receive an equal monthly allotment of coupons entitling him to purchase 36 gallons/month at the controlled price. These coupons could be freely traded or sold. The coupon market would permit those drivers with needs greater than those represented by the monthly allotment to purchase additional coupons from those who use less than their monthly amount.

- Commercial users would receive coupon allotments equivalent to 90 percent of their consumption during the 1973 base period.

- For that limited class of users for whose special needs the coupon resale market is not a reasonable solution, 3% of the coupons would be set aside and distributed by the state. This distribution would be based primarily on emergency or hardship.

- Coupons would be picked up in person at Post Offices by each eligible individual. They will be invalidated at the pump at time of purchase, and deposited by retailers with banks in a special coupon account. Gasoline deliveries to suppliers will be made to retailers only for amounts equivalent to coupons collected.

Gasoline Use Data

- Estimated consumption in 1975 is 6.4 million barrels per day or 270 millions of gallons per day (MG/D)

- Number of licensed drivers in 1974 was 125.1 million. There will be an increase of up to 15 million anticipated if coupon rationing is put into effect.

- Without rationing, each driver would use 50 gallons per month.

- With the expected increase in licensed drivers and supply limited by 1 million barrels per day, by rationing, the allowance for each licensed driver would be:
  per day = 1.2 gallons
  per month = 36 gallons
  per year = 432 gallons

Problems with Gasoline Rationing

Gallons per month and price of Gasoline

- To save 1 million barrels per day, while assuring adequate fuel for business will mean limiting each licensed driver to about 36 gallons per month, compared to current average of 50 gallons/month. It is expected that the coupons will sell for about $1.20 per gallon. Hence, for those who must purchase more than their basic ration, the effective price of gasoline (pump plus coupon price) is estimated at $1.75/gallon.

Impact on National Energy Goals

- Gasoline rationing, while it may limit consumption in the short run, makes no contribution to our mid- and long-term goals of energy independence, because it provides no incentives for increasing supply.

- Gasoline consumption is only 40% of total petroleum use. Residual and fuel oil comprise a substantial amount of total petroleum imports. By concentrating exclusively on private vehicles and gasoline, other fruitful areas for energy conservation are not addressed -- such as improved industrial efficiency and better constructed and insulated buildings. In the final analysis, we cannot be independent unless these other petroleum uses are also reduced dramatically.

Potential for Inequities

- Each person receives an equal number of coupons, but use of gasoline varies widely among drivers. Thus, rationing inevitably leads to inequities. Some examples are:

  - A widowed secretary with two children living in the suburbs who commutes 16 miles each way to work in a car that gets 12 mpg will experience a 68% increase in her commuting costs, because she must purchase 17 additional coupons each month at an average cost of $1.20 per gallon. This amounts to about $245/year in additional costs.

  - A blue-collar worker who owns a car that gets only 9 mpg can drive just over 320 miles/month on his basic ration, and could not easily afford to purchase a new, more efficient automobile. On the other hand, an affluent neighbor can readily trade in his equally inefficient old car to purchase one getting better

than 22 mpg. This allows him to drive over 790 miles on the same allotment of coupons.

- Substantial regional inequities would exist. The average driver in some rural states such as Montana travels nearly 600 miles per month versus about 300 in less rural states such as New York and New Jersey. Similar disparities exist between city dwellers and suburbanites. Under rationing each would receive the same gallonage.

- Certain very poor persons, such as migrants, drive large distances each year. They can neither afford to buy additional coupons nor are alternative methods of transportation available to them.

- The recreation and tourism industry would be very heavily impacted, as would the auto industry. Automobile sales could decrease 35% from what they would otherwise be.

Increase Bureaucracy and Complexity

o The Government would be involved in many new aspects of our every day life, adding an inescapable portion of bureaucracy, complexity, and inconvenience.

o The Government would decide:

- if a new business should get fuel;
- if expanding businesses deserve more fuel;
- if specific individuals would qualify for more coupons because of hardships.

o Gasoline rationing can be implemented but it is complex, expensive, and at best a short term solution. It takes 4-6 months to implement, about 15 to 25,000 full-time people and $2 billion in Federal costs, uses 40,000 Post Offices for distribution, and requires 3,000 state and local boards to handle exceptions.

o Because coupons are transferable, they must be picked up by each driver in person quarterly at Post Offices. Long lines and delays are inevitable.

o Gas stations, with limited quantities to sell, are unlikely to maintain more than the most limited service hours. Evening and weekend closings are almost a certainty.

Impact on GNP

- o Use of allocation and rationing to reduce imports by one million barrels per day could create a drop of nearly 13 billion dollars in the GNP and place several hundred thousand more workers on unemployment rolls. Also, rationing would have an inflationary impact due to the significantly higher clearing price of gasoline coupons sold by those having excess coupons.

Comparison of Gas Rationing and President's Program

- o Each option has major regional impacts; rationing hits the mountain states, the southwest and the mid-west hardest. The President's program affects New England and the east coast.

- o Rationing will reduce consumption in the short term but is inadequate as long term solution. The President's program is effective in both the short and long run.

- o Both rationing and the President's program transfer about $2 billion to poor families in the first year.

- o Rationing is costly and complex; the President's program is inexpensive and easy to administer.

- o Rationing raises the CPI by over 2.5 percentage points; the President's program by about 2.5 points.

- o Rationing could cost the country $13 billion in GNP and a substantial increase in unemployment; the President's program would have negligible effects in each area.

HIGHLIGHTS OF GASOLINE RATIONING IN WORLD WAR II **

prepared for
William E. Simon
Deputy Secretary of the Treasury
November 1973

The gasoline rationing program carried on for 38 months in World War II was reorganized three times and to the very time of its termination in 1945, was beset with extensive administrative, enforcement, and political problems. A sketch of how the program was administered and some of the problems encountered follows.

As an introduction, the following table shows the number of vehicles on the road today as compared with 29 years ago.

	1944	1972	1973 1/
Cars	25,466,000	96,860,000	101,237,000
Trucks & Buses	4,620,000	21,646,000	23,247,000
Total Vehicles	30,086,000	118,505,000	124,484,000

Gasoline rationing first became effective in 17 Eastern States on May 15, 1942 (because of the large number of tankers being sunk by submarines along the East Coast), was extended to all States on December 1, 1942, and was terminated August 15, 1945. From January 7 to March 22, 1943 and from May 20 to September 1, 1943, all pleasure driving was banned and no one could drive a car except for an "essential purpose."

1/ Estimated for 1973; represents largest annual incremental increase in motor vehicles on record.

**This study does not take into account problems in administering a rationing program for 2,800,000 commercial farmers; many of which have huge gasoline storage tanks necessary for carrying out their agricultural operations.

Gasoline rationing was administered by the Office of Price Administration (OPA), which was comprised of 8 regional offices, some 90 district offices, and 5,525 local boards. One of the primary purposes of gasoline rationing was to preserve rubber. Efforts were made to hold annual average mileage to 5,000 miles and to restrict speed limits to 35 miles per hour.

OPA was allocated gasoline for rationing with quantities categorized for passenger cars, commercial vehicles, farm use and non-highway use. Consumer rationing was done through coupons which were valid for a fixed period of time. The value of the coupons was subject to change; thus, a person's gasoline ration could be cut in half simply by issuing a federal order which doubled the length of time that a set of coupons would have to last the driver, or by reducing to 50 percent the amount of gasoline for which the coupons could be used.

BASIC RATIONING FEATURES

There were 4 coupon categories:

Basic rations could be obtained for use with a registered car (Class A books) and motorcycle (Class D books). When the program began in 1942, Class A books contained 6 pages of 8 detachable coupons per page, entitling the holder to 48 units of gasoline for 1 year's use. The 8 coupons on each page could be used for a stated 2-month period only. The gallonage value of each coupon was changed from time to time, but when the program began intent was to hold driving to not more than 150 miles per month. At first, A coupons were worth 4 gallons each or 16 gallons a month. Coupons were later cut to 3 gallons each and at times increased to as much as 6 gallons each.

Supplemental rations could be issued for occupational mileage: Class B (16 coupons for 3 months use) or Class C (number of coupons determined from a table). Class C drivers were essential users (tire eligibles) such as doctors, maintenance men, and candidates for office. Supplemental coupons had a value of 5 gallons each and were to provide mileage in excess of 150 miles for occupational driving.

Non-Highway rations were issued for three-month periods. These came under Class E and Class R books, the coupons in each being worth one unit; most were to farmers.

Commercial users, including contract and common carrier truck and bus lines, operated under the auspices of the Office of Defense Transportation. They received T, later S, coupons from that agency. The coupons could be used for any vehicle in a fleet under common ownership. Enforcement was particularly difficult here.

LOCAL RATIONING BOARDS

Local rationing boards were considered to hold a similar position to those of courts. Members were nominated by the Local Defense Council and cleared with the State OPA director, who worked closely with the chief State school officer. Members had to devote 8 hours a week, and the size of the board ranged from 3 - 12 persons (ratio of about 1 person per 7,000 population). The State OPA director was responsible for appointing a custodian for each county who distributed rationing forms and materials to county rationing boards. Public schools were widely used as the sites for board meetings and administration of the rationing program.

COUPON FLOWBACK

Coupons issued by the rationing board went to the consumer. In purchasing gasoline, the consumer turned his coupons into the dealer who in turn gave his coupons to his source of supply - the distributor. Those coupons then were deposited by the source of supply into a bank account.

There were some 14,000 commercial banks who established rationing accounts. Each gasoline distributor had an account on which he could draw a check similar to a money account.

Each month, the gasoline distributor was required to make a report to the State tax administrator and send a check from his rations banking account which showed a record of every gallon of gasoline sold. The State tax administrator verified the amount of checks turned in along with statements of usage by various distributors. This information was sent from each State to the audit and control sections of OPA in Washington.

GASOLINE PRICES, VOLUME, AND NUMBER OF CARS

Prices were held to a very stable level as shown in the following chart of average prices for regular gasoline in 55 key cities:

Year	Gasoline Basic Price	State & Fed. Tax	Total Price to Customer	Percent Increas
1939	13.31	5.44	18.75	
1940	12.75	5.66	18.41	(1.8% dec.
1941	13.30	5.93	19.23	4.2
1942	14.46	5.97	20.43	6.2
1943	14.56	5.97	20.53	.4
1944	14.62	5.97	20.54	.2
1945	14.48	6.02	20.50	(.4% dec.)

Volume of gasoline in barrels per day allocated for civilian use was gradually cut from 1,800,000 in 1941 to 1,257,000 in 1944, a decrease of 30 percent. (Note: In the first 10 months of 1973, demand for gasoline averaged 6,700,000 barrels per day, a gain of 5.2 percent over 1972).

The number of civilian cars in 1941 totaled 28,100,000, which gradually decreased to 25,466,000 in early 1944, and to 24,300,000 by the end of 1944, an overall decrease of 13 percent.

INSTRUCTIONS TO GASOLINE STATIONS:

Instructions to gasoline station operators were different for each coupon book. For example, with coupon book A, the station operator was instructed to:

1. Examine the customer's ration book to be sure there is an adequate number of currently valid coupons to cover the purchase. (Detached coupons must not be honored.)

2. Check the description as shown on the front of the book with automobile for which he is buying the gasoline. The registration number of the vehicle as shown on the book should be that number which appears on the large standard size license plate. (If there is any doubt about the identification, you must check the Use Tax Stamp number on the book with the number which appears on the Use Tax Stamp of the vehicle.)

3. Detach the necessary coupons to cover the requested purchase.

4. Place the gasoline only in the fuel tank of the automobile described on the book.

You are to remove a number of coupons at least equal to the amount of gasoline sold. Example: If the current unit value of a coupon, as announced by the Office of Price Administation, is 4 gallons and the customer purchases 8 gallons, you must detach 2 coupons. In cases where the purchase is a fraction of a current coupon value, you must detach a complete coupon. Example: Based on an assumed coupon value of 4 gallons, you will detach 1 coupon for each purchase up to and including 4 gallons, 2 coupons for each purchase of more than 4 and up to and including 8 gallons, etc.

FORMS AND BOOKS

As a measure of the paper work involved in rationing, inauguration of the coupon plan in the 17 Eastern States in May 1942, necessitated the preparation and distribution of 34 types of forms and books aggregating 187,971,000 separate pieces. There were 7,746,000 automobiles registered in the area, less than 8 percent of the 101,237,000 automobiles in the U. S. today.

OPA encountered considerable difficulty in administering rationing. The uneveness of granting the initial allocation of coupons (whether A, B, or C), granting appeals for higher priority; thus, additional coupons, and the checking of compliance and enforcement eroded the good will of the public.

BLACK MARKET IN GASOLINE

The rationing period of World War II witnessed a nationwide black market. Part of this can be attributed to sophisticated crime rings while other segments grew in a more desultory fashion, including your man on the street.

Extensive illegal marketing practices crept into gasoline during the last half of its rationing. The situation became so apparent that Congress held hearings on the black market in gasoline through the months of April and May, 1944.

Since the whole system of gasoline rationing depended heavily upon the coupon system, black marketeers also used the coupon system to remain unobtrusive. Illegal use of gasoline was accomplished by one of three means:

1) through counterfeit coupons

2) through stolen coupons

3) through overapplication by a consumer for gasoline.

Counterfeit coupons were usually sold in bulk to the filling stations or gasoline distributor rather than the customer. When a customer came in for 10 gallons of gasoline but only

had coupons for 5 gallons, the filling station would sell him the additional 5 gallons and hand over 5 counterfeit coupons to his gasoline dealer or ration bank account. In this way the filling station would sell more gasoline by showing more need through the illegal coupons. Valid coupons were marked with fluorescent numbers, making detection of counterfeit coupons a fairly simple matter if one had the right equipment. Coupons were examined at the ration banks and counterfeits were sent to the OPA in Washington. The OPA issued bulletins on counterfeits to warn all their counterfeit experts who worked in conjunction with the Secret Service.

Once an optimum number of counterfeit coupons was detected from a certain filling station, the operator of the station had to appear before a hearing commissioner who determined whether or not the gasoline delivery should be suspended to this individual operator. The hearing commissioners were required to be attorneys and approved by the Civil Service Commission.

Stolen coupons and overapplication for gasoline was harder to detect than counterfeit coupons. An OPA official estimated that 300,000,000 gallons worth of stamps were stolen from the ration boards. The same official stated that approximately 5% of rationed gasoline was misused as a result of counterfeit and stolen coupons.

Misuse of a single gas rationing coupon risked $10,000 and a year in jail, but gasoline abuses were the most flagrant of all. With the appearance of synthetic tires and the suspicion

that gasoline was not really in such short supply, the consumer became less convinced of the necessity of the program. Cooperation was also undercut by wage increases because of the wartime economy. Yet there was little to buy.

On the black market, illicit coupons could be obtained for $25 to $35 per 100 gallons. Some gas stations charged $.60 a gallon and didn't ask for coupons. Gasoline normally sold about $.20 a gallon. Bootleg coupons sold for 3-5¢ a gallon to gas stations which passed gas on at 100% to 200% markup over cost.

LIMITATION-ORDER METHOD OF GASOLINE CONTROL

Prior to the beginning of the formal gasoline rationing program in May 1942, a program was implemented which cut to 50 percent of normal, deliveries of gasoline to dealers. In turn, dealers were out of gasoline for considerable lengths of time. Customers in turn, drove thousands of extra miles in search of gasoline. Many man-hours were lost in vital war industries because workers found dealers' pumps dry when they required gasoline to get to work. Dealers were accused by the public of favoring friends by giving them extra gasoline or of selling it to customers willing to pay higher prices. The limitation-order program was dropped after only a few months as being unworkable and creating considerable public ill-will.

BAN ON PLEASURE DRIVING

Two attempts were made in 1943 to enforce a ban on pleasure driving; both failed after only a few months of trial. In a critique of the rationing program, OPA officials concluded that no phase of rationing, other than the meat crises, stirred so much or such generally unfavorable publicity; none posed so acutely the hard questions of public policy and private interest in the apportionment of sacrifices, nor brought out so many callous displays of personal disregard for the sacrifices of others.

The question of essential driving was left to local boards. Clearly, going to see a doctor or going to church was legitimate and going to a baseball game or night club was not. But in between the two extremes the borderline was vague. Local police were solicited to help enforce the ban, but the novelty soon wore off and within police departments there was much disagreement upon the meaning of essential driving. In some communities, it proved easy to avoid the ban without detection, or at least, without punishment. Many who observed the ban, saw their neighbors violating it with impunity. Some who had saved their coupons for special occasions felt ill-used when told that their planned trips were banned. Overzealous and indiscriminate enforcement efforts including dragnet raids at racetracks and similar amusement centers provoked resentment. Complaints poured in from all quarters of opinion, newspaper publicity was wide and unfavorable, and pressure upon the OPA, members of Congress, and other government officials to lift

THE ENFORCEMENT PROBLEM

The task of enforcing rationing became one of the most extensive law enforcement projects ever undertaken by the government. With almost every person in the Nation affected in some fashion, the complex movement of gasoline through a series of producer to marketing channels and the immense amount of paperwork with the coupon system, the number of transactions ran into the billions.

The principal purpose of enforcement activities was to secure compliance with the regulations, that is, to prevent violations rather than to obtain convictions. To this end, it was necessary to discover and punish violators in order to deter them and others from further violations.

The scope of the controls was so broad, the number of parties involved so great, and the potential violations so numerous, that a reasonable compliance could be obtained only if there was generally a voluntary adherence to the rules. To this extent, the patriotic fervor built up because of the war effort helped somewhat. Even so, violations were extensive.

In March 1944, checks by OPA indicated that about 5 percent of the civilian supply, or 60,000 barrels a day, was being lost to black marketers and counterfeiters who stole, printed, and sold gasoline coupons, and to chiselers who bought them or bought gas without coupons. Cases were documented that persons with long criminal records were buying and leasing gasoline stations and wholesale distributorships.

OPA records of convictions in black market cases were studded with names of hardened criminals who for years had been linked with big-time bootlegging, counterfeiting, white slavery, kidnapping, and murder, and who were in gasoline misuse, following well-established racket formulae.

Counterfeit coupons reached a value of 3 to 4 cents per gallon at the peddler level and as high as 10 cents per gallon at the car-owner level.

The OPA had only 2,800 investigators, or less than one per county. Therefore, many violators were never caught. Despite short manpower, the investigators established an impressive enforcement record. For example, from January 1, 1944 to June 1, 1944 (5 months) they:

1) Arrested 1362 counterfeiters, peddlers and gasoline dealers handling counterfeit or stolen coupons.

2) Of these, 607 were tried and convicted.

3) 236 received jail sentences (50 of these received sentences of more than one year.

4) 40,480 filling stations which had taken invalid coupons for gasoline (worth more than 7,000,000 gallons) were required to make good with legal coupons.

156 of these stations put themselves out of business by making repeated illegal sales.

5) There were 1538 filling stations who sold gasoline without valid coupons who were denied the right to buy or sell gasoline for periods ranging from a few weeks to the duration of the war. Many of these stations had bought counterfeits to cover illegal sales.

The Washington Post

B-4

How to Ration Gasoline

LET US SUPPOSE, for a moment, that you are the person to whom President Ford assigns the job of designing a system to ration gasoline. The President thinks that rationing is a terrible idea and wants to cut consumption by raising prices and taxes instead. But a great many well-intentioned senators and congressmen think that rationing is much fairer. We are now going to suppose that they win the coming fight, a rationing law is enacted, and you are appointed to set up the operation. The basic program is clear. There remain only a few minor issues of policy that a sensible person like yourself should have no difficulty resolving quickly and—to repeat the key word—fairly.

The first question is to whom to give ration books, and your first inclination is to give them to every licensed driver. That brings you to the family in which both parents and all three teen-aged children have licenses. If they have five ration books, the kids can continue to drive to school. You think that they ought to take the school bus, and you revoke the kids' coupons. But then you learn that they all have part-time jobs—one of them plays the xylophone in a rock band—and they will be unemployed if they can't drive. You get a call from the White House telling you not to contribute to unemployment, which is rising. You give in, and return the kids' ration books. That gives the family five times as much gas as the widow across the street whose three children are all under 16.

Continuing the crusade for fairness, you take up the case of Family A, whose harassed father has to commute 30 miles to work every day, and Family B next door, whose father runs a mail order business out of his basement. Family B goes to the beach every weekend—very inexpensively because, as the congressmen made clear, the point of rationing is to avoid raising prices. Score another point for fairness and turn to the case of two suburban communities, a mile apart, one of which has bus service to and from central city and the other of which does not. Reasonably enough, you give less gas to people in the community with buses—until you discover that none of them works in the central city. They all seem to work in other suburbs, most of which have no public transportation. Your response, obviously, is to make everyone in the United States fill out a form showing where he works. Then you hire a computer firm to identify those who can get to their jobs by public transit in less than 90 minutes with no more than three transfers; they will get fewer coupons. There are certain difficulties in enforcing these rules, as you concede to several congressional committees, but you expect to be able to handle them with the expanded appropriations that you have requested to hire more federal gas investigators.

Now that you are beginning to get the hang of the thing, you will want to proceed to the case of the salesman who flies to an airport and rents a car. If you issue gas to the rent-a-car companies, the salesman might be tempted to use one of their cars to take his family on a vacation. But the salesman's personal coupons won't cover company trips. Now you have to decide how much gasoline to give to companies, and which business trips are essential. You might turn that over to the staff that you set up to decide which delivery services are essential and how to prevent delivery trucks from being used for personal business.

By the way, you have to consider the rural poor—for example, the laborer who lives far out in the country. Some weeks he's employed far from home and commutes hundreds of miles. Some weeks he finds work nearby. Some weeks he's unemployed, particularly when the weather's bad. You post a prize for the formula to cover that one.

You are beginning to discover the great truth that simple rules are never fair, and the fairer the system gets the more complicated it has to become. Even in World War II, when there were only one-third as many cars and the national dependence on them was far less pronounced, it was necessary to set up boards of citizens in every community to rule on a flood of special requests, hardships, grievances and challenges. It is a method that requires, unfortunately, a massive invasion of personal privacy. Americans accepted it then as a temporary wartime expedient. But the present emergency is not temporary.

A year ago, when the Nixon administration was considering rationing, the planners suggested simply giving everyone the same number of coupons and letting people buy and sell them legally on a "white market," as they called it. But in a white market the laborer with the long trip to work would have to bid against the family that wants to drive its station wagon to Yosemite for its vacation. Under President Ford's price scheme, at least the country would know roughly what the increased price of fuel would be. In a white market, no one could say how high the bidding might go, or how widely it might fluctuate from one season to another.

Congress, and specifically the Democratic leadership, is behaving rather badly. Its committees have been exploring the economics and technology of energy with considerable skill for more than two years, and they understand the choices as well as the administration does. The Democratic leadership's cries for further delay now are hardly more than a plea merely to postpone unpleasant but urgent decisions. A year ago, when President Nixon asked for rationing authority, Congress said that rationing was unpopular; the law never passed. Now that President Ford proposes the other alternative, higher prices, congressmen cite polls to show that people would prefer rationing.

In the present state of general indecision, the most widely popular position is probably the one represented by Gov. Meldrim Thomson of New Hampshire. Gov. Thomson opposes both rationing and higher prices. He would prefer, evidently, simply returning to the halcyon days of 1972 before the energy squeeze took hold of us. It is a pleasant idea. But it is not, unfortunately, one of the real choices—not even for New Hampshire.

I. INTRODUCTION

This paper summarizes the major effects of the President's energy program upon consumer costs. The major elements of the program are:

- A $2 per barrel import fee on petroleum.
- A $2 per barrel excise tax on domestic petroleum production and a 37¢ per thousand cubic feet (Mcf) excise tax on domestic natural gas.
- Decontrol of domestic petroleum prices and the deregulation of new natural gas prices.
- A windfall profits tax on all domestic petroleum production that is designed to absorb all the profits that would otherwise flow from decontrolling oil prices, plus an additional $3 billion. This tax does not itself cause price increases but it recaptures the profits from price increases otherwise induced.
- A rebate to consumers of the energy fees and taxes that are collected.

The effect of these actions, with the exception of the excess profits tax, is (1) to increase the prices of petroleum products by about $4 per barrel (about 10¢ per gallon) if all increased costs are passed through to the consumer and (2) to at least partially offset these price increases with the tax rebates.

This paper presents the impacts of the President's proposed program on consumer energy bills by region, type of energy product, and income class. The effect of the program on the Consumer Price Index (CPI) is estimated as an indication of the total increase in consumer costs. The estimated effect on the CPI is important because it includes higher consumer costs associated with both direct consumer purchases of energy and indirect purchases of energy.

II. DIRECT ENERGY COSTS

The impact of the President's program on the cost of direct energy purchases by households has been estimated for each type of fuel used. Table 1 presents expenditures by fuel type without the program and the estimated impact of the energy program on these expenditures. Figure I shows this information graphically.

Table 1

Impact of the President's Energy Program on Direct Energy Expenditures for 1975 ($ per year per household)

	Energy Costs Without the Program	Energy Costs With the Program	Increases Due to Program	
Gasoline & Motor Oil	$572	$ 681	$109	19%
Heating Oil	69	88	19	27
Natural Gas	100	130	30	32
Electricity	228	241	13	6
Total	$969	$1140	$171	18%

The estimates in Table 1 were derived as follows:

Gasoline. Consumption estimates without the program have been derived from a Bureau of Labor Statistics (BLS) survey of gasoline use by region. These were aggregated and divided by the total number of households (70 million) to give consumption per household The current average price of gasoline is approximately 52¢ per gallon. An increase of 10¢ per gallon to 62¢ per gallon represents a 19 percent increase in the price of gasoline. Hence a 19 percent increase in gasoline and motor oil to $681 per household per year. Moreover, this increase in costs due to the program is an overstatement in that it is assumed that there is no short run response to the increased prices and hence that there is no reduction in consumption.

Heating Oil. Consumption estimates were obtained from a BLS survey in the same manner as for gasoline. The current average price of heating oil is approximately 37¢ per gallon. An increase of 10¢ per gallon to 47¢ per gallon represents a 27 percent increase in the price of heating oil. This 27 percent increase in heating oil prices increases energy costs for heating oil to $88 per household per year. A small amount of residual fuel oil is also used by households. This quantity (about $6 per year per household) was obtained from the BLS survey and included in the heating oil estimates.

Natural Gas. The quantities and prices for natural gas were obtained from analyses that are being performed by the Office of Economic Impact, the Federal Energy Administration. The increase in the average price of natural gas is estimated to be 37¢ per Mcf for intrastate gas and 43¢ per Mcf for interstate gas. Interstate sales of natural gas are currently regulated (by the Federal Power Commission) whereas intrastate sales are not. The excise tax of 37¢ Mcf is levied on all gas. The average price of interstate gas should increase 6¢ per Mcf because of the deregulation of new gas.

Electricity. Electricity cost increases were estimated by the Office of Data, the Federal Energy Administration. These estimates account for the effects of increased fuel costs and do not consider the effects of higher rates of return or accounting practices that would effectively raise utility costs.

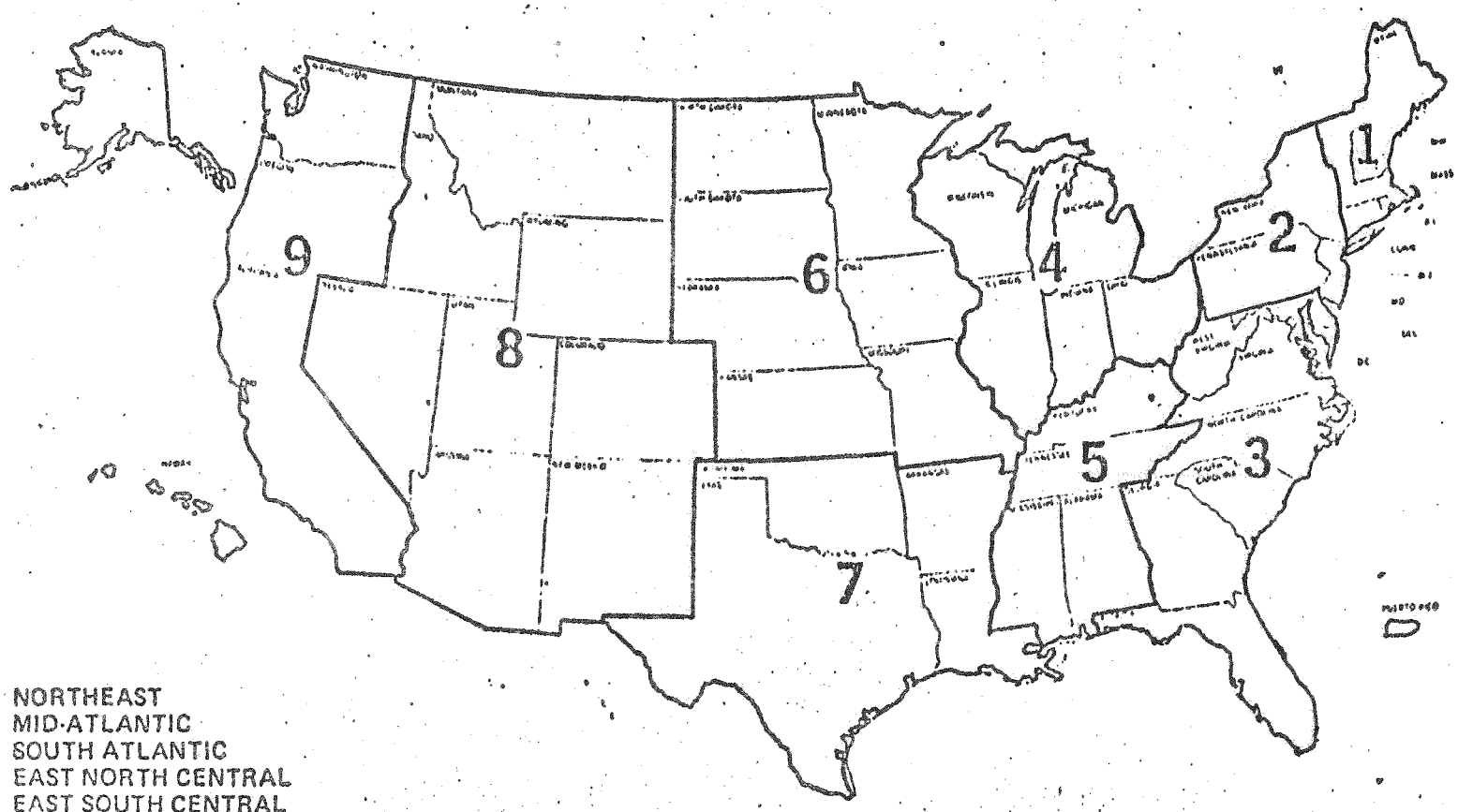
Regional Impacts

The regional impacts of the President's program upon household energy costs are shown in Table 2 and Figure II. These data were all derived from the same sources as the data in Table 1 and were calculated by dividing the total regional energy cost increase by the number of households in each region.

Table 2 illustrates that the New England, West North Central, West South Central, and Mountain areas have the greatest relative impact. In all of these areas, except New England, the primary cause of the large increase is gasoline prices. In New England the major factor is heating oil.

PROJECT INDEPENDENCE EVALUATION REGIONS

CENSUS REGIONS



1. NORTHEAST
2. MID-ATLANTIC
3. SOUTH ATLANTIC
4. EAST NORTH CENTRAL
5. EAST SOUTH CENTRAL
6. WEST NORTH CENTRAL
7. WEST SOUTH CENTRAL
8. MOUNTAIN
9. PACIFIC

Table 2

Regional Distribution of the Increased Direct Energy Expenditures Per Household

	Gasoline & Motor Oil	Heating Oil	Natural Gas	Electricity	Total
New England	$ 95	$56	$14	$15	$180
Middle Atlantic	83	54	24	9	170
East North Central	107	19	44	4	174
West North Central	126	13	36	12	187
South Atlantic	118	10	14	12	154
East South Central	116	2	19	5	142
West South Central	116	0	27	42	185
Mountain	141	3	37	10	191
Pacific	102	3	30	16	151
Total U.S.	$109	$ 19	$30	$13	$171

Tables 3, 4, and 5 and Figure III give estimates of the effect of the energy program on different income classes. With the exception of the tax rebate data these statistics were obtained from analyses done by the Washington Center for Metropolitan Studies and are totally independent of the estimates made for the aggregate and regional impacts in Tables 1 and 2. However, close examination and comparison of Table 1 with Table 3 shows that the data are consistent. Specifically, the median income of families in 1972 was about $11,000. Assuming that inflation has raised this to $13,000 the $969 total energy bill given in Table 1 is bracketed by the $742 and $1085 bills given in Table 3 for the energy costs of the lower middle and upper middle income classes. The other numbers in Table 3 are roughly consistent with Table 1.

Tables 3 and 4 illustrate that low income groups spend a larger proportion of their income on direct energy purchases than higher income groups. These tables also show that the tax rebate slightly offsets the average increase in energy costs of the poor and the upper middle income class,

significantly offsets the average cost of the lower middle income group and falls short of meeting the higher costs of the well-off group by $50.

Table 3

Current Energy Costs Without the President's Program a/

	Poor Average $2,500	Lower Middle Average $8,000	Upper Middle Average $14,000	Well-Off Average $24,500
Gasoline	$140	$349	$ 627	$ 736
Heating Oil	66	66	66	83
Natural Gas	91	108	117	140
Electricity	160	203	259	319
Coal	16	16	16	16
Total	$473	$742	$1085	$1294
% of Average Income	18.9%	9.3%	7.8%	5.3%

a/ Source: WCMS Survey for 1972-1973, adjusted for price increases to September 1974.

Table 4

Energy Costs with President's Program a/

	Poor	Lower Middle	Upper Middle	Well-Off
Gasoline	$166	$415	$ 746	$ 876
Heating Oil	83	83	83	105
Natural Gas	120	142	154	184
Electricity	170	215	275	338
Coal	16	16	16	16
Total	$555	$871	$1274	$1519
% of Average Income	22.2%	10.9%	9.1%	6.2%

a/ Estimated by applying percent price increases for each type of energy from Table 1 to the energy costs in Table 3.

Table 5

Net Energy Costs of President's Program

	Poor	Lower Middle	Upper Middle	Well-Off
Average Increase in Energy Costs	$ 82	$129	$ 189	$ 225
Average Rebate	97	311	253	183
Net Energy Costs	458	560	1021	1336
% of Average Income	18.3%	7.0%	7.3%	5.5%

III. TOTAL ENERGY COSTS

The total price impact of the President's energy program will extend beyond the direct energy purchases to any non-energy products or services that require significant amounts of energy in their production or distribution. Chemicals, metal and foods products are examples of areas in which the indirect or ripple energy price effects might be great.

The indirect price effects are uncertain and are difficult to forecast. Most price models that measure and forecast these effects depend on historical experience to estimate the responses of various markets to changes in the costs of inputs. The models attempt to capture the extent that costs are passed on to purchasers and the extent that profit margins are adjusted up or down.

The approach used by the Federal Energy Administration to forecast the indirect price effects of the President's program was to use a stage-of-processing model developed by Data Resource Incorporated (DRI) to forecast the overall rise in the Consumer Price Index (CPI) and to use this estimate to derive total increased consumer costs. The indirect costs are then calculated as the difference between the direct and total cost estimates.

A modified version of the DRI stage-of-processing model was used to forecast the effect that energy price changes have upon the CPI and components of the CPI. The model requires two inputs: (1) forecasts of wholesale energy prices and (2) forecasts of the general wholesale and retail price indices prior to energy price changes. Price information is combined with historical information on the relationship between the stages-of-processing to forecast the effects that energy price changes will have on the prices of crude wholesale goods, intermediate wholesale goods, finished wholesale products, and finally retail consumer goods and services.

Using the methodology described above, it is estimated that the CPI will increase .2 percentage points during the first full year of the program. Given a normal unencumbered economy, the CPI would rise by approximately 2.5 percentage points during the first full year of the program in addition to the normally expected rise; and there would be small increases of 0.3 and 0.2 percentage points in the second and third years. These estimated increases tend to over-estimate the effect of the program for two reasons: First the energy price increases that were used as inputs to the model assume a full pass-through of the taxes and import fees. It is unlikely that this

will occur because of the tax rebates to industry and because the economy is generally weak. This excess supply would result if industry attempts to pass through all of the costs. (Only if demand is totally nonresponsive to price changes would firms and businesses be able to pass all of the increases to consumers.) Secondly, the stage-of-processing model is based upon historical mark-up relationships and these may not hold because of the currently poor market demand conditions. That is, demand is currently at such a low level that companies may not be willing to pass on increased costs for fear of further reducing their markets.

For a 2 percentage point increase in the CPI, the total and indirect costs to the household would be $275 and $104 respectively. Table 6 summarizes the steps taken to make these estimates.

Table 6

Estimated Total and Indirect Consumer Costs

1. Estimated Personal Consumption Per Household

   a. Estimated 1975 Personal Consumption = $966.8 Billion [a]
   b. Estimated Number of Households = 70 million
   c. Consumption per Household = $13,810

2. Estimated Costs (per household per year)

	Total[b]	Indirect[c]
High Estimate	$345	$174
Best Estimate	275	104

a/ From DRI Long-Term Forecast.
b/ Estimated as 2.5 percent times $13,810 for high estimate and 2.0 percent times $13,810 for best estimate.
c/ Calculated as total less direct ($171).

This table shows that the total costs are likely to be $275 per household with direct cost being about $171 on average and indirect costs being about $104.

KENNEDY-JACKSON RESOLUTION

Q. What is wrong with the Kennedy-Jackson resolution?

A. The Kennedy-Jackson resolution neglects to set forth the kind of comprehensive energy program that the President's proposals entail. The President's program not only sets out a long-term goal for achieving energy independence, but an immediate reduction in our excessive demand for imports. The Kennedy-Jackson proposal would probably lead to a mandatory rationing system because it would prevent the corrective action that is needed from taking place right now. It would eliminate the use of price mechanism and would have the government bureaucrats making all the decisions for the public on how to cut their energy use. We believe that the public is clever enough to decide how to make decisions on reducing energy use.

DEMAND ELASTICITIES

Q. How do you know that the demand elasticities utilized to predict the one million barrel a day savings will actually occur?

A. Nobody ever knows for sure exactly what effects an increase in price will have on the demand for any product. However, historical trends and especially the experience of the last year's large price increases in petroleum, indicate that the demand elasticities projected by the Administration are likely to be conservative rather than overly optimistic. Our analysis assumes an elasticity of 0.1, which says that for every 10 percent increase in prices there would be a 1 percent decline in demand. This means that if price doubles, demand will only decline by 10 percent. Such an analysis appears to be highly conservative, especially when compared to the estimates of other prominent economists.

GASOLINE RATIONING

Q. What is wrong with gasoline rationing?

A. Those who propose gasoline rationing do not have a clear understanding of what this would mean to the country. To curb demand permanently, we would have to have a rationing program probably for a minimum of five years. Those favoring rationing must be thinking of a short-run, not a serious long-term program to end energy dependency. Further, by concentrating on gasoline, other opportunities to conserve petroleum products would be lost.

Rationing would be inequitable, no matter how conscientiously administered. There is no objective rule for determining fair shares between products, or among buyers of a given product. To meet our 1975 goal of reducing imports by one million barrels a day, a gas rationing system would have to limit each driver to 9 gallons of gasoline per week. That would be fair for some and unfair for others, and exceptions would have to be made. In order to determine a fair share, a bureaucracy consisting of more than 20,000 employees, more than 3,000 local exception boards and costing more than 2 billion dollars a year would be necessary.

In contrast to the complex economic and expensive administrative rationing procedure which will inevitably impose hardships and distort economic growth, the President's program aims to give all buyers of oil freedom of individual choice. It lets them decide in their own best interest what quantities and in what form they wish to buy petroleum products and in what way they will conserve petroleum products to reach our goal.

Excise Tax and Import Fees on Crude Oil and Gas—Explanation and Objectives

Q: How will the import fee and excise tax on crude oil and natural gas work?

A: A license fee on imports of crude oil will be increased by $1 per barrel on February 1, $2 on March 1 and $3 on April 1. We are asking the Congress to impose an excise tax of $2 per barrel on the producer of domestic crude oil at which time the fee on imported crude oil will be set at $2 per barrel over present levels.

In order to prevent a shift to natural gas which, relative to coal and other resources, is already in short supply, an equivalent tax will be imposed on natural gas and liquefied petroleum gases. That is 37 cents per m.c.f. of dry gas and $1.43 per barrel for liquefied petroleum gases.

Q: Will the $2 per barrel tax on oil and the 37 cents per m.c.f. tax on gas be permitted to expire or are they permanent?

A: We are not proposing any expiration date for the taxes, because we cannot now predict when they will no longer be required to help us conserve energy and reduce energy dependence. However, if these pressing national needs can be met otherwise some years in the future, we are sure Congress will reconsider the desirability of these taxes.

Q: How and under what authority will the increase in import fees become effective?

A: The President will issue a Proclamation setting out his determination that national security is involved and specifying the fees to be made applicable, pursuant to section 232 of the Trade Expansion Act of 1962 (19 U.S.C. § 1862) Proclamation 4210, dated April 19, 1973 (38 F.R. 9645), which sets out the present import fees, will be withdrawn or modified.

Q: What will the effect on oil consumption in the United States be from the energy tax program?

A: By the end of 1975, we will have reduced our oil consumption by at least 1 million barrels per day. All of this reduction will come in the form of reduced imports, which should improve our balance of payments position considerably. By 1977, our consumption will have fallen by 2 million barrels per day. The reason the reduction grows is that consumers will have had time by 1977 to further change their consumption patterns—smaller cars, fewer trips to the store, home insulation, etc. Businesses will change even more rapidly by switching from oil to coal, installing energy saving equipment, etc.

Q: Why impose energy taxes with one hand and cut income taxes with the other in order to return the money to the economy?

A: The energy taxes are designed to raise the relative prices of oil and gas and to ensure that these increases do not result in gains by producers of oil and gas. The income tax restructuring is designed to mitigate the burdens everyone will share in adapting to the higher costs of energy.

The burden of energy taxes will fall most heavily on those who are the heaviest consumers of oil and gas. The income tax restructuring will favor most those whose incomes are lowest and have been most heavily penalized by the inflation. Higher energy prices will also encourage the massive investment program required to adapt the economy for the future era of costly energy.

Q: Why not use the revenue from the tax on oil and gas and windfall profits tax for energy research and development instead of returning it to consumers?

A: There is already substantial government spending to study and develop new energy resources. There is a limit to how much will be achieved by additional dollars spent.

We believe the revenue will be better spent if returned to the economy. The kind of consumer spending which we expect will result will create more jobs than government spending on research and development.

B. Decontrol of Prices

Q: How does decontrol of oil and gas prices help anything?

A: It helps in two ways. On the demand side, it signals users what the true cost to the U.S. economy is to obtain an additional barrel of oil or a cubic foot of gas so that these resources will not be used for purposes that are worth less and thus be wasted.

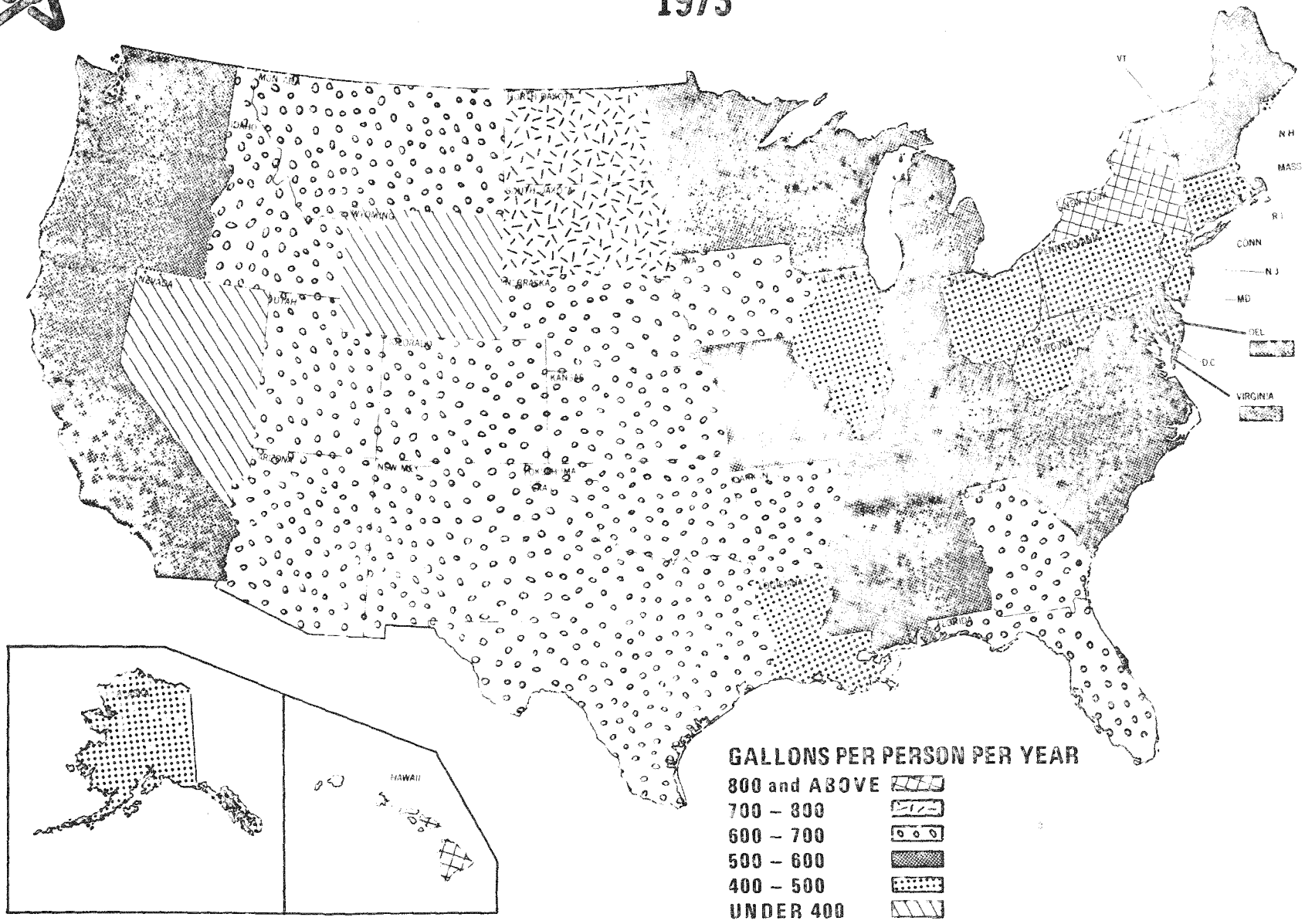
On the supply side the higher decontrolled prices will signal producers how much they can afford to spend to explore for and produce more oil, and they will invest accordingly.

In the case of oil, decontrol will help arrest the alarmingly high rate of decline in production from existing fields. Producers will be able to get the same price from investing in secondary and tertiary recovery processes that produce "old" oil as they would from investing in the search for "new" oil elsewhere. In the case of gas, we expect that more of the volume coming on stream will flow into interstate pipelines rather than remaining within the producing states in which the gas is located.

Finally, price controls are unsound in the long-run and lead to more and more severe problems than they possibly could solve. Decontrol will make unnecessary all the administrative regulations that have been promulgated in order to imperfectly distribute the controlled low-price oil and interstate gas among the several classes of users. All Americans should have the same access to oil and gas, and they will if prices are decontrolled.

Federal Energy Administration

PER CAPITA GASOLINE CONSUMPTION 1973



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This paper summarizes the major effects of the President's administrative actions that are designed to deal with the energy problem on an interim basis until Congress passes a more permanent program. The elements of the administrative actions are:

-- An increase in import fees on crude oil and petroleum products of $1 February 1, 1975; and an additional $1 March 1, 1975; and another $1 effective April 1, 1975, for a total increase of $3 per barrel.

-- FEA's old oil entitlements program will be utilized to spread cost increases on crude among oil refiners and to lessen disproportionate regional effects such as New England.

-- As of February 1975, products imports will cease to be covered by FEA's old oil entitlements program. In order to overcome any severe regional impacts that could be caused by large fees in import-dependent areas, imported products will receive a fee rebate corresponding to the benefit which would have been obtained under that program. The rebate will be $1 in February, $1.40 in March, and $1.80 per barrel thereafter.

The following tables show the current costs per capita of petroleum use by region and they show the increased cost in the percent increase due to the administrative actions of the President. Two sets of tables are shown here. First, we show the cost per region without the crude oil equalization program, and we show it with the crude cost equalization program. Comparison of these two sets of tables illustrate the effects of the cost equalization program on reducing regional disparities.

REGIONAL COSTS WITHOUT EQUALIZATION

Tariff Value: Crude $1.00
Product $0.00
Old Oil Controlled

	Region1	Region2	Region3	Region4	Region5	Region6	Region7	Total
Total	-36.799	-20.568	-22.766	-60.374	-25.154	-6.435	-30.882	-203.0(
$/Capita	-0.9891	-0.8785	-1.1950	-0.9109	-1.0731	-1.2855	-1.0728	-0.99(
$/Barrel	-0.4174	-0.4584	-0.4985	-0.5578	-0.5491	-0.5309	-0.5604	-0.50(

Tariff Value: Crude $2.00
Product $0.60
Old Oil Controlled

	Region1	Region2	Region3	Region4	Region5	Region6	Region7	Total
To	-90.550	-46.558	-48.603	-121.020	-50.307	-12.871	-63.006	-433.08
$/Capita	-2.4338	-1.9884	-2.5511	-1.8259	-2.1462	-2.5710	-2.1887	-2.131
$/Barrel	-1.0271	-1.0377	-1.0643	-1.1181	-1.0982	-1.0618	-1.1434	-1.082

Tariff Value: Crude $3.00
Product $1.20
Old Oil Controlled

	Region1	Region2	Region3	Region4	Region5	Region6	Region7	Total
Total	-144.302	-72.547	-74.440	-181.666	-75.461	-19.306	-95.130	-663.10
$/Capita	-3.8785	-3.0984	-3.9072	-2.7409	-3.2193	-3.8565	-3.3046	-3.263
$/Barrel	-1.6368	-1.6170	-1.6301	-1.6785	-1.6474	-1.5926	-1.7263	-1.657

Costs per Capita

REGIONAL COSTS WITH EQUALIZATION

Entitlement Value $6.00 (Ratio 0.426)

Tarrif Value: Crude $1.00
Product $0.00

Old Oil Controlled

COMPANY	REGION 1	REGION 2	REGION 3	REGION 4	REGION 5	REGION 6	REGION 7	TOTAL
TOTAL	22.026	20.328	25.471	67.782	30.766	8.945	27.647	203.063
$/CAPITA	0.5920	0.8682	1.3369	1.0227	1.3125	1.7869	0.9604	0.9994
$/BARREL	0.2498	0.4531	0.5578	0.6263	0.6716	0.7379	0.5017	0.5075

REGIONAL COSTS WITH EQUALIZATION

Entitlement Value $6.00 (Ratio 0.426)

Tarrif Value: Crude $1.00
Product $0.00

Old Oil Controlled

COMPANY	REGION 1	REGION 2	REGION 3	REGION 4	REGION 5	REGION 6	REGION 7	TOTAL
TOTAL	22.026	20.328	25.471	67.782	30.766	8.945	27.647	203.063
$/CAPITA	0.5920	0.8682	1.3369	1.0227	1.3125	1.7869	0.9604	0.9994
$/BARREL	0.2498	0.4531	0.5578	0.6263	0.6716	0.7379	0.5017	0.5075

REGIONAL COSTS WITH EQUALIZATION

Entitlement Value $7.00 (Ratio 0.426)

Tariff Value: Crude $2.00
Product: $0.60

Old Oil Controlled

Company	Region 1	Region 2	Region 3	Region 4	Region 5	Region 6	Region 7	TOTAL
Total	73.316	46.277	51.758	129.663	56.855	15.799	59.232	433.084
$/Capita	1.9705	1.9765	2.7167	1.9563	2.4255	3.1560	2.0576	2.1315
$/Barrel	0.8316	1.0315	1.1334	1.1980	1.2412	1.3033	1.0749	1.0824

REGIONAL COSTS WITH EQUALIZATION

Entitlement Value $8.00 (Ratio 0.426)

Tariff Value: Crude $3.00
Product $1.20

Old Oil Controlled

Company	Region 1	Region 2	Region 3	Region 4	Region 5	Region 6	Region 7	Total
Total	124.605	72.226	78.046	191.543	82.944	22.652	90.817	663.105
$/Capita	3.3491	3.0848	4.0964	2.8899	3.5386	4.5251	3.1548	3.2636
$/Barrell	1.4133	1.6099	1.7090	1.7697	1.8107	1.8687	1.6480	1.6573

TARIFF PROGRAM WITHOUT EQUALIZATION

Tariff Value: Crude $3.00
Product $3.00
Old Oil Controlled

	Region1	Region2	Region3	Region4	Region5	Region6	Region7	TOTAL
Total	195.159	-88.811	-83.652	182.481	-75.461	-19.306	-98.857	743.981
$/Capita	-5.2454	-3.7931	-4.3907	-2.7532	-3.2193	-3.8565	-3.4341	-3.6616
$/Barrel	2.2136	1.9795	1.8318	-1.6860	-1.6474	-1.5926	-1.7939	-1.8594

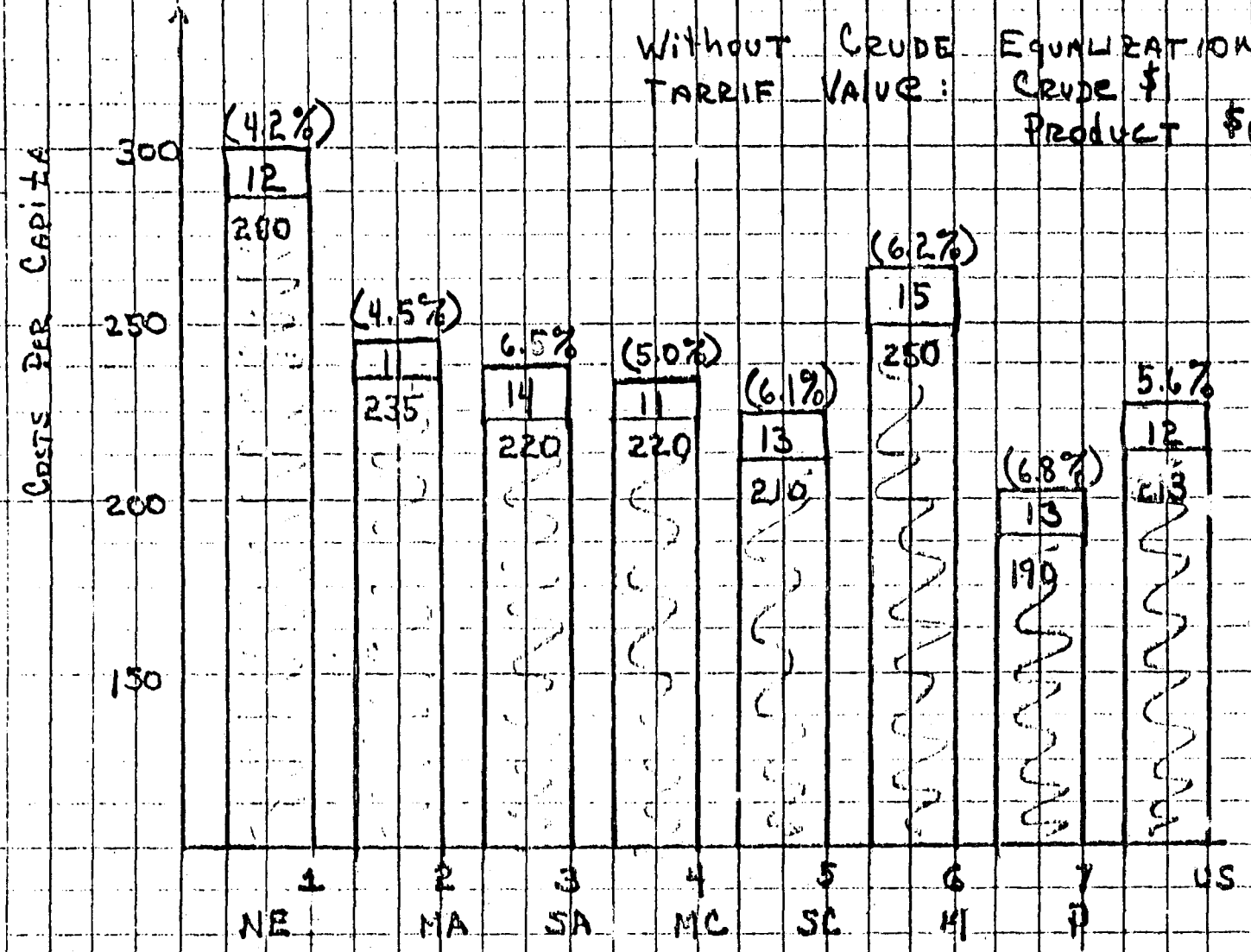
TARIFF PROGRAM WITH EQUALIZATION

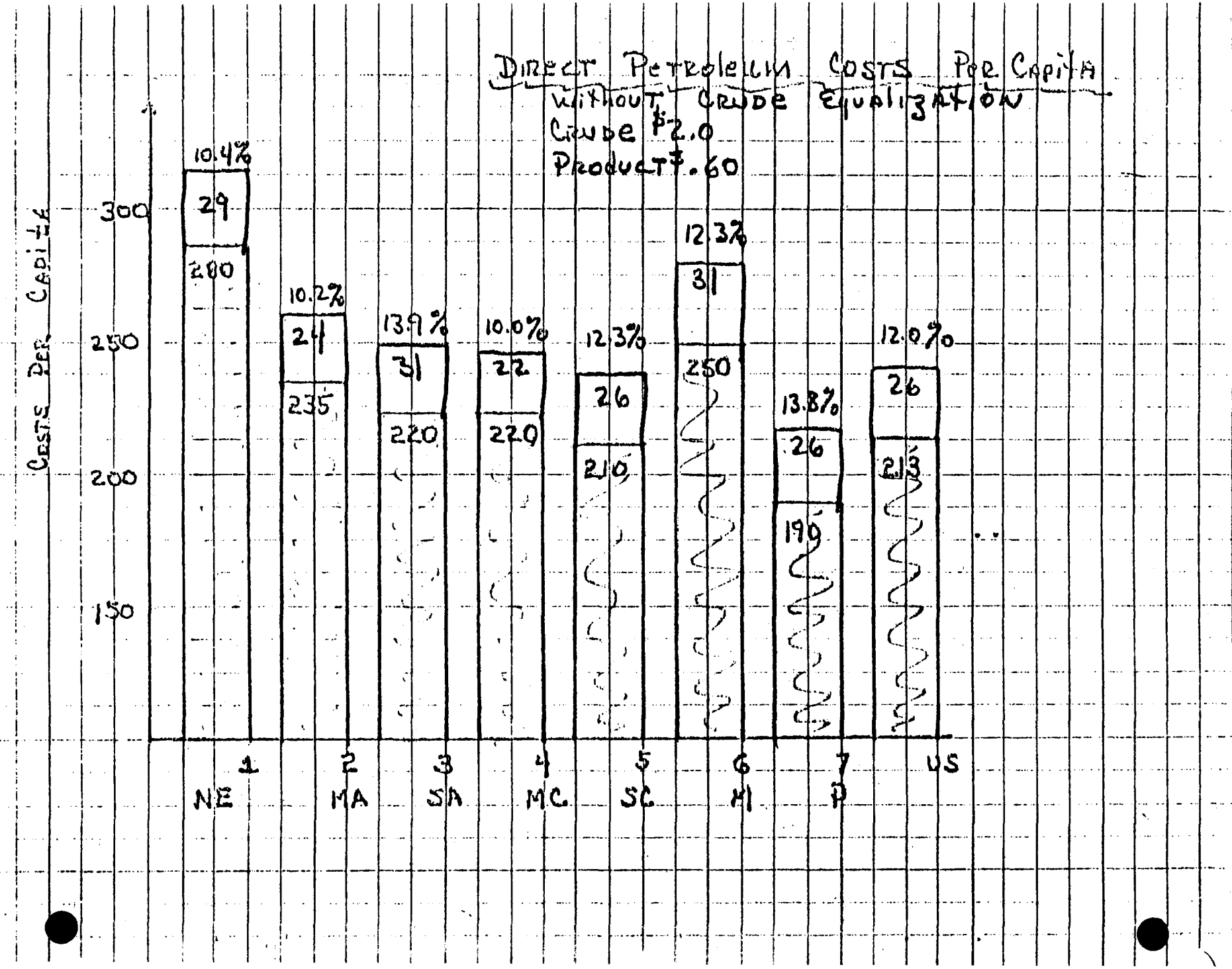
Tariff Value: Crude $3.00
Product $3.00
Old Oil Controlled

	Region1	Region2	Region3	Region4	Region5	Region6	Region7	Total
Total	175.462	-88.491	-87.257	192.358	-82.944	-22.652	-94.544	743.981
$/Capita	-4.7160	-3.7794	-4.5799	-2.9022	-3.5386	-4.5251	-3.2843	-3.6616
$/Barrel	-1.9902	-1.9724	-1.9107	-1.7772	1.8107	-1.8687	-1.7157	-1.8594

Direct Petroleum Costs Per Capita

Without Crude Equalization Tariff Value: Crude $ Product $0




DIRECT PETROLEUM COSTS PER CAPITA
WITHOUT CRUDE EQUALIZATION
CRUDE $2.0
PRODUCT $.60
COSTS PER CAPITA
300
250
200
150
10.4%
29
200
10.2%
24
235
13.9%
31
220
10.0%
22
220
12.3%
26
210
12.3%
31
250
13.8%
26
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213
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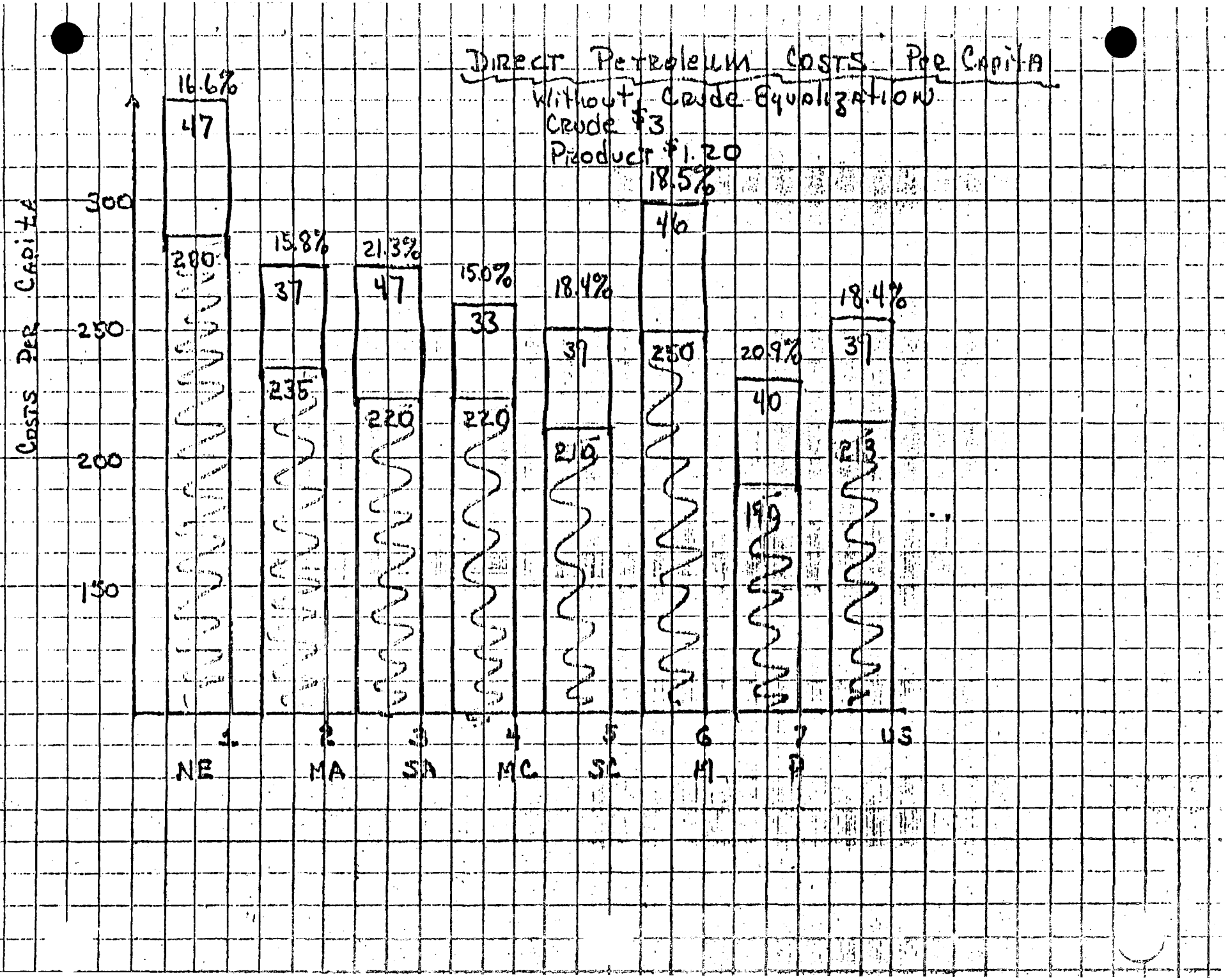
Direct Petroleum Costs Per Capita
Without Crude Equalization
Crude $3
Product $1.20
Costs Per Capita
300
250
200
150
16.6%
47
280
15.8%
37
235
21.3%
47
220
15.0%
33
220
18.4%
39
219
18.5%
46
250
20.9%
40
199
18.4%
39
213
NE
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SA
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SC
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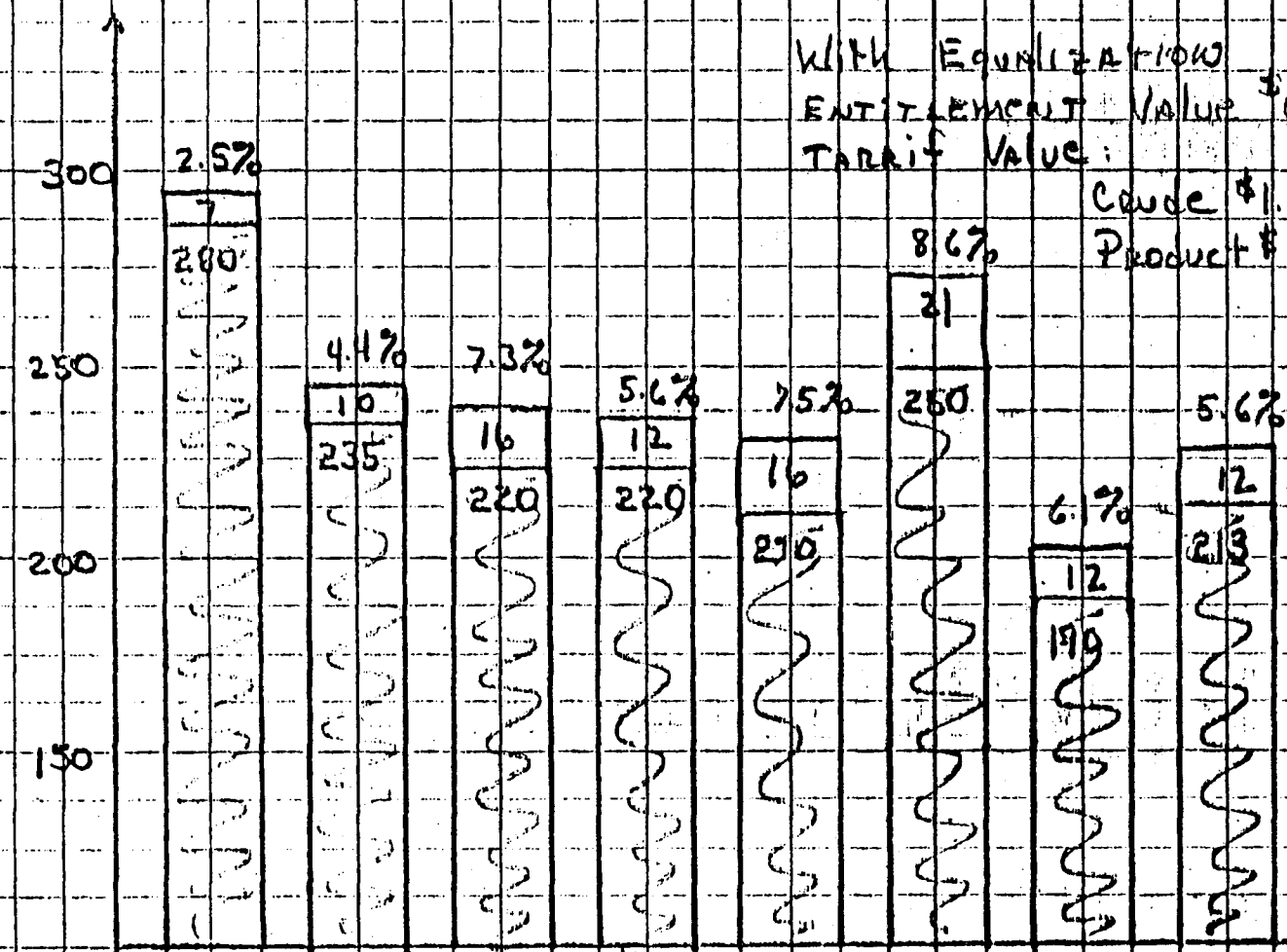
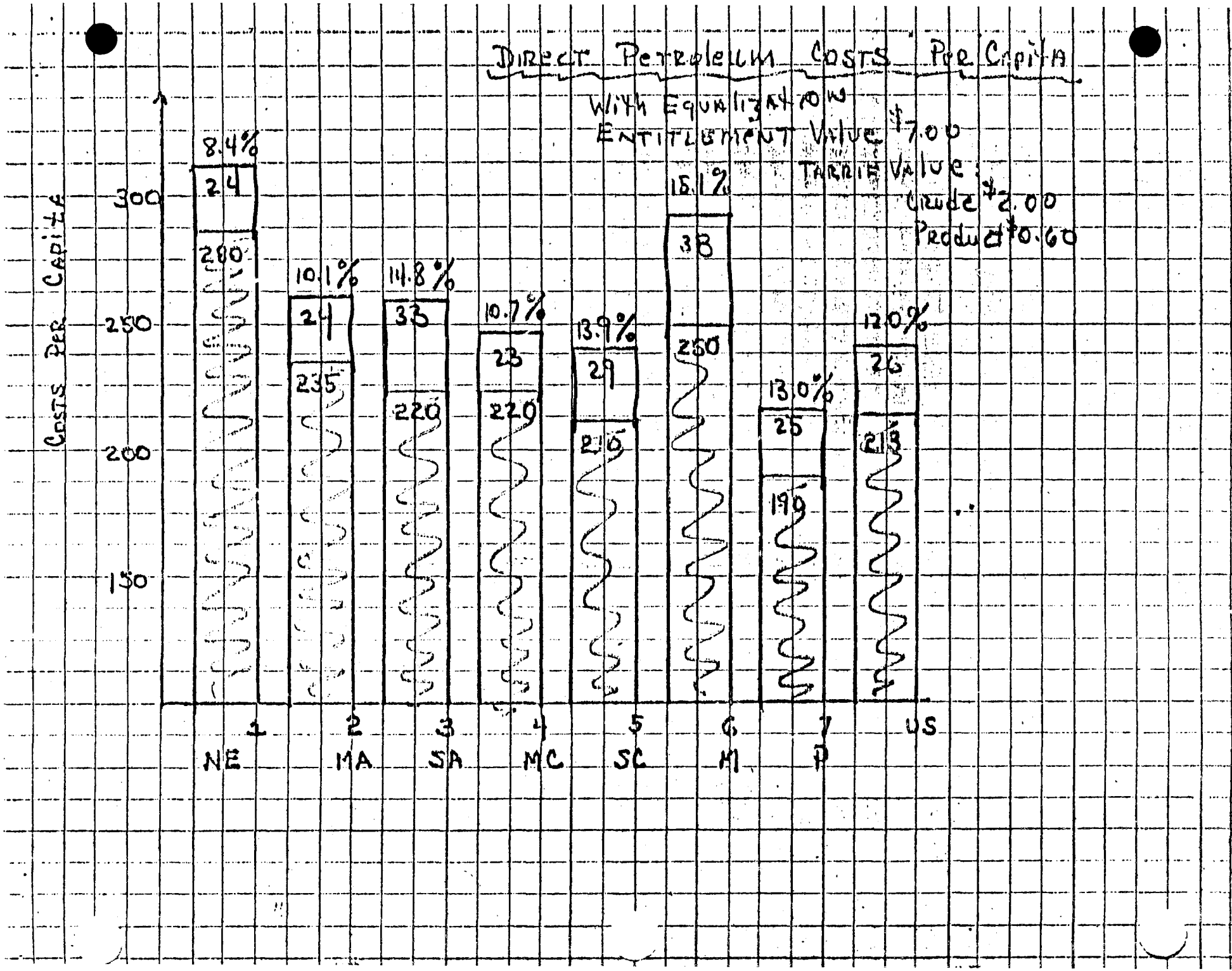
Direct Petroleum Costs Per Capita

With Equalization
Entitlement Value $6.00
Tariff Value:
Crude $1.00
Product $0




DIRECT PETROLEUM COSTS PER CAPITA
WITH EQUALIZATION
ENTITLEMENT VALUE $7.00
TARIFF VALUE:
CRUDE $2.00
PRODUCT $0.60
COSTS PER CAPITA
300
250
200
150
8.4%
24
280
10.1%
24
235
14.8%
33
220
10.7%
23
220
13.9%
29
216
18.1%
38
250
13.0%
25
190
12.0%
26
213
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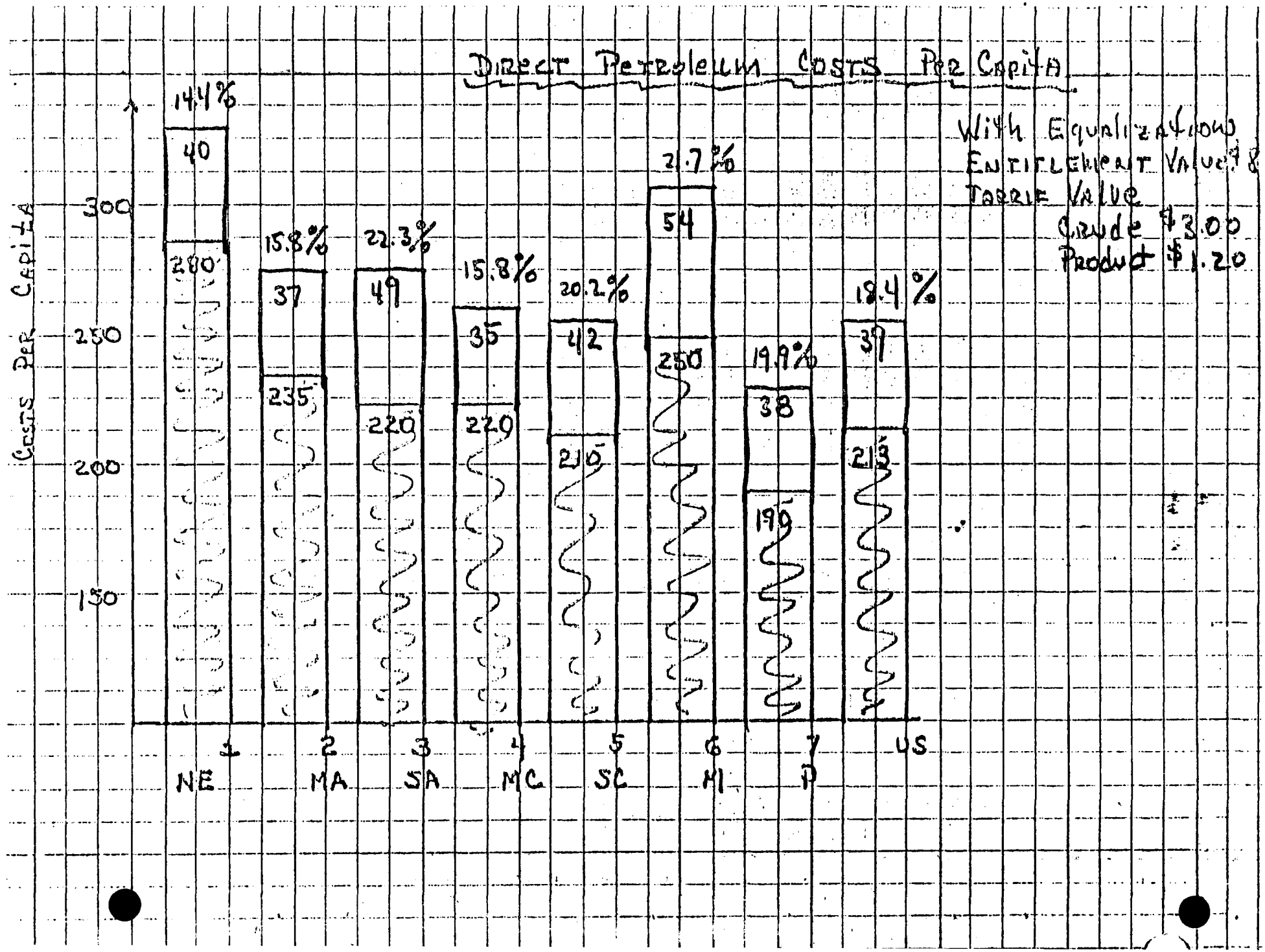
P
US


Direct Petroleum Costs Per Capita
With Equalization Entitlement Value &
Tariff Value
Crude $3.00
Product $1.20
Costs Per Capita
300
250
200
150
14.4%
40
280
15.8%
37
235
22.3%
49
220
15.8%
35
220
20.2%
42
210
21.7%
54
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19.9%
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195
18.4%
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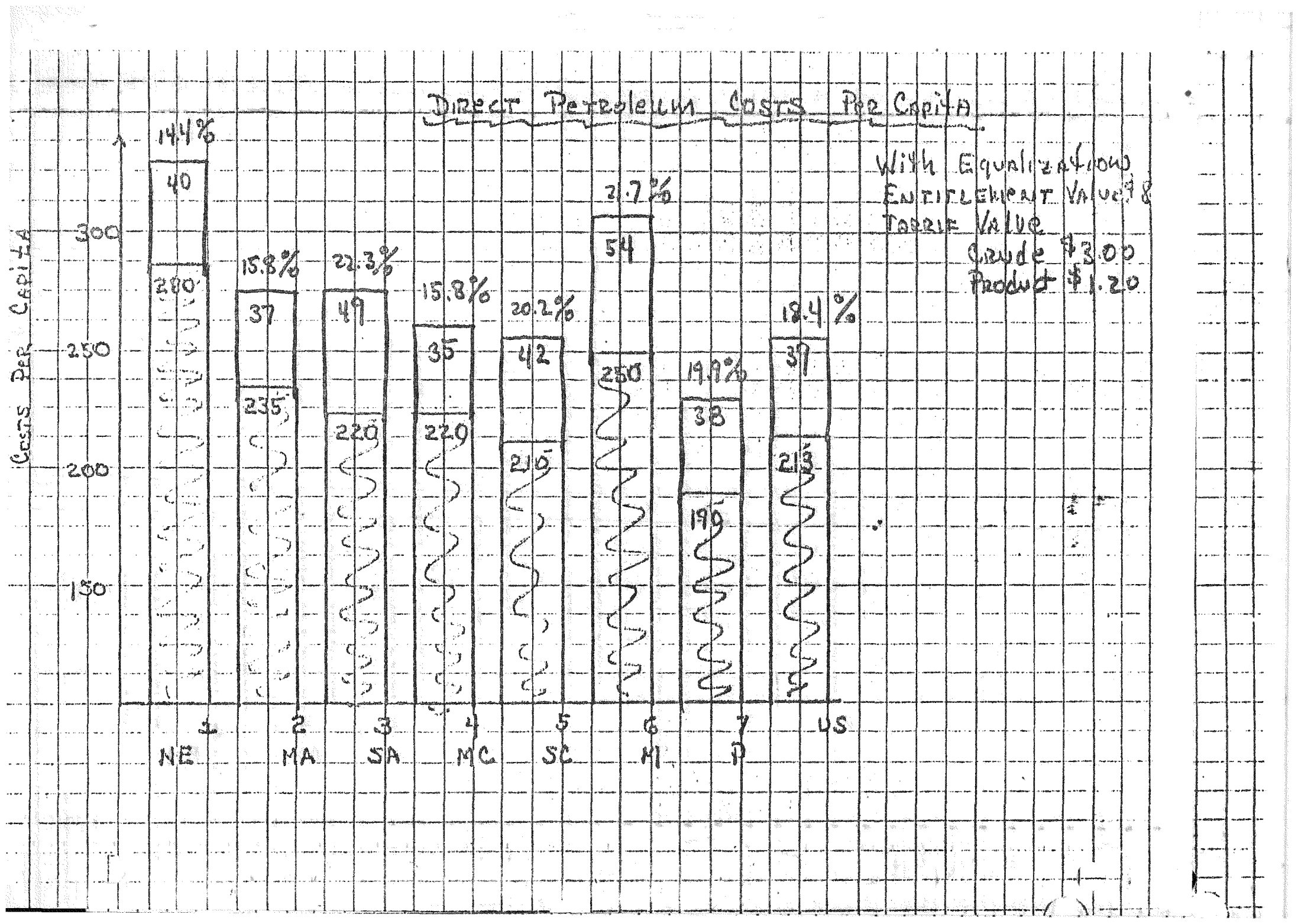
Direct Petroleum Costs Per Capita
With Equalization Entitlement Value & Tariff Value
Crude $3.00
Product $1.20
Costs Per Capita
300
250
200
150
14.4%
40
280
15.8%
37
235
22.3%
49
220
15.8%
35
220
20.2%
42
210
21.7%
54
250
19.9%
38
190
18.4%
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NE 1
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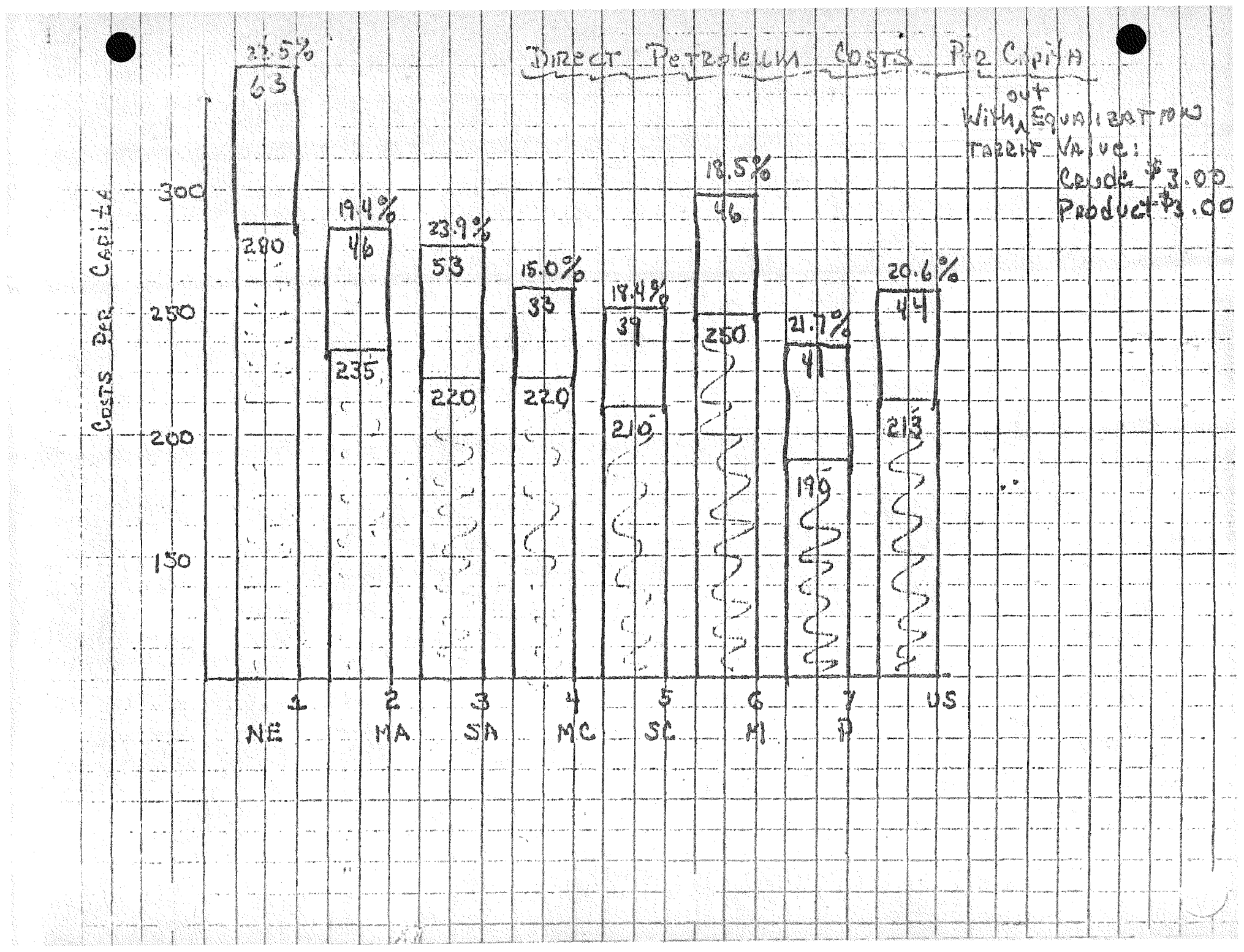
MC 4
SC 5
M 6
P 7
US


DIRECT PETROLEUM COSTS PER CAPITA
without EQUALIZATION TARIFF VALUE:
Crude $3.00
Product $3.00
COSTS PER CAPITA
300
250
200
150
33.5%
63
200
19.4%
46
235
23.9%
53
220
15.0%
33
220
18.4%
39
210
18.5%
46
250
21.1%
41
190
20.6%
44
213
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NE
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MI
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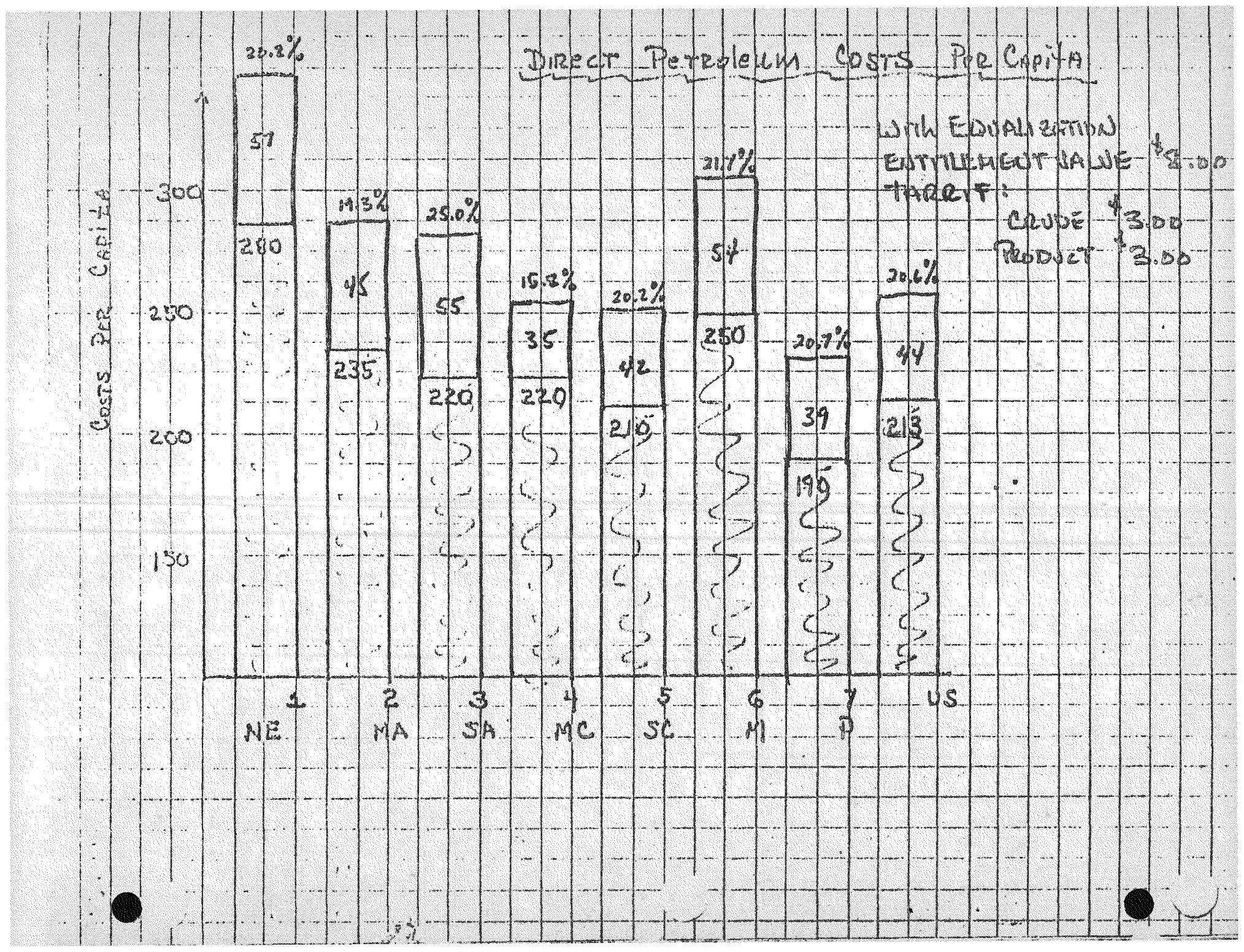
MN
US


DIRECT PETROLEUM COSTS PER CAPITA
WITH EQUALIZATION
ENTITLEMENT VALUE $2.00
TARGET:
CRUDE $3.00
PRODUCT $3.00
COSTS PER CAPITA
300
250
200
150
20.2%
57
280
11.3%
45
235
25.0%
55
220
15.8%
35
220
20.2%
42
210
21.7%
54
250
20.7%
39
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20.6%
44
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THE NORTHEAST ENERGY PROBLEM AND ALTERNATIVES

The Northeast Energy Problem

The President's energy program, which seeks to stimulate conservation of petroleum through the imposition of import fees and excise taxes, will increase energy costs throughout the United States. These increases will be offset, but not eliminated, under the President's proposed across-the-board tax rebate program. In the initial phase of the program (February-April 1975) the temporary $3.00 import fee could cause significant increases in Northeast overall energy costs primarily because of New England's predominant (85%) dependence on petroleum products. The ultimate $2.00 tariff/excise tax, however, will equalize regional energy costs -- see Tab, Program Costs and Income Effects.

Programs Already in Operation and Proposed to Mitigate the Regional Imbalance

The President's program anticipated the temporary regional imbalance associated with the immediate import tariff element of the overall program by providing for an effective rebate of import fees on imported petroleum products. This is achieved by a $1.20 fee on products, rather than the $3.00 fee applied to crude oil.

Also, FEA's Old Oil Entitlements program will be maintained during the scheduled life of the import fee program to continue spreading price increases on crude oil among all refiners and to lessen disproportionate regional cost effects derived from the heavier dependence on imported crude oil.

After the $2.00 tariff/excise tax program element replaces the temporary import tariff program (April 1975) the overall energy cost increase for New England will be essentially equal to or slightly less than the rest of the country.

In the near term, while the import tariff program is operative, certain additional measures could be adopted to mitigate the Northeast/New England high energy cost situation as enumerated below:

Increased Rebated Portion of Import Fee on Products

Since the Northeast is heavily dependent on imported residual oil, an increase in the rebated portion of the oil import fee from the current proposed level would have a mitigating affect on the impact of petroleum product price increases on the Northeast. Alternatively, the rebate increase could be limited to residual oil only, since New England is dependent on residual oil for 32% of its total energy consumption and about 90% of its residual oil consumption is imported.

However, in both cases, increasing the amount of rebate will widen the cost differential between an imported barrel of crude and an imported barrel of product, thereby increasing the economic attractiveness of imported products and creating a disincentive to increased domestic refinery capacity. Thus, this alternative only is desirable for a short period of time. Also, the benefit of any rebate on products is expected to expire with adoption of the $2.00 tariff on crude oil and products under the President's program.

Maintain and Adjust Price Controls to Provide for a Disproportionately Higher Pass-Through of Increased Costs to Gasoline

Another alternative for mitigating the impact of increased prices on the Northeast is to limit the pass-through of increased costs of crude oil to those petroleum products on which the Northeast is least heavily dependent. By limiting the proportionate cost increases to products other than gasoline to some fixed percentage of the proportionate share of refinery output, the impact in the Northeast could be reduced at the expense of other regions. This occurs because New England consumes only 82% as much gasoline per capita as the national average (12.6 barrels per capita in New England compared to 15.4 barrels for the United States.

However, several problems are associated with this alternative. First, this places the burden of increased prices on motorists in New England and on businesses such as the motel industry which are heavily dependent on automobile travel. Secondly, although New England consumes less gasoline per capita than the national average, New England is still more heavily dependent on gasoline as an energy source than the United States in total (gasoline consists of 23% of the total energy consumed in New England, while only 18% for the entire United States).

Target Federal Assistance Programs to Northeast Consumers

Another alternative for mitigating the impact of increased petroleum prices on the Northeast is to channel federal assistance funds

associated with proposed federal conservation programs to that area. For instance, the low income assistahce program (the Winterization Program) requested by the President provides for grants to states for the winterization of homes occupied by persons in the poverty income category. These funds are for the provision of insulating materials to decrease the energy consumption of these homes and reduce the fuel bills of low income persons.

A significantly higher share of the 55 million dollars of annual funds for this program would normally go to the Northern States since these states have a greater number of homes in need of improved insulating techniques. However, the criteria for allocating the funds among states could be established placing a priority on homes in the areas most heavily impacted by the increased prices. In the long term, it is doubtful whether this priority would provide a greater total amount of funds to New England for winterization than would have been received by the program as currently planned, since the program provides for winterization of all homes of those low income persons expected to voluntarily participate in the program. However, the addition of such a priority could provide New England low income persons the assistance earlier in the life of the program.

Adjustment of Utility Rate Structures to Promote Conservation and Assist Low Income Persons

An alternative which could significantly stimulate conservation of petroleum in the Northeast and also provide assistance to low income and elderly persons would involve an adjustment of utility rate structures. Currently utilities in the Northeast use about 20% of the total petroleum consumed in the Northeast. The typical utility rate structure provides a lower rate per kilowatt hour for increasingly higher consumption levels. This "declining block" rate structure rewards intensive consumers of electricity and places a burden on consumers of smaller quantities, often the low income persons and elderly in a community. These structures typically charge 4¢ per kilowatt hour for the first 100 kilowatt hours, but only 1.5¢ per kilowatt hour for amounts over 400 kilowatt hours.

To assist the low income and elderly persons, a special rate could be designed within the rate structure to ameliorate the impact of anticipated rate increases due to increased petroleum prices on the low income and elderly. This special rate would guarantee a basic amount of electricity at a reasonable rate, for example 400 kilowatt hours per month at 2.5¢ per kilowatt hour, or a total of $10 per month. This special rate could be tailored to each local or state area's individual socioeconomic composition and usage pattern.

In addition, utility rates could be entirely restructured to provide for an increase in the average price of a kilowatt hour for increasingly larger blocks of electricity. The typical declining block rate structure would be inverted to become an inclining block rate structure. As an illustration, the first 400 kilowatt hours would be provided for an average price of 2 1/2¢ per month per kilowatt hour; the next 100 kilowatt hours would cost an average of 2.8¢ per kilowatt hour, and consumption over 1,000 kilowatt hours would cost 3.5¢ per kilowatt hour. With this type of rate structure, any individual user of electricity would realize a significantly stronger economic incentive to conserve energy.

In addition to the inevitable institutional resistance to such changes, there are a number of economic and operational problems associated with the adoption of an equitable inclining block rate structure. First, the prices of electricity would no longer bear a direct relationship to the costs of producing and generating electricity. Also, difficulties would arise if the total consumption of electricity declined to the point where less base loading was allowable, but peak loading was substantially unchanged. This situation would preclude economic incentives for increased use of coal and nuclear facilities in generating electricity.

LONG-TERM SOLUTIONS

In the longer term, there is sufficient reason to believe that the Northeast can bring its dependency on petroleum products in balance with other regions of the country and thus eliminate proportionately higher adverse impacts of petroleum price increases. Several programs included in the President's program, including coal conversion in electric utilities, and OCS leasing, will tend to reduce the dependency of the Northeast on imported oil. Also the Northeast, especially the New England States and New York can substantially reduce its dependency on imported oil by accelerating construction of nuclear power generation capacity and local refinery capacity.

Coal Conversion Opportunities in Electric Utilities in the Northeast

A dramatic increase in oil consumption for steam electric generation was observed in the last decade in the Northeast. In 1964, 63% of steam electric generation was fueled by coal and 33% by oil; while in 1972 only 6% was derived from coal and 93% from oil. In 1972, electric utilities in New England were consuming 88 million of the 445 million barrels of petroleum consumer per year. If dependency on petroleum in the Northeast is to be reduced, the trend in utilities toward increased use of oil must be changed.

An examination of oil burners in electric utilities in the Northeast has uncovered 33 plants which are eligible for mandatory coal conversion under the provisions of the Energy Supply and Environmental Coordination Act of 1974 (ESECA), as administered by FEA. The total savings from conversion in these 33 plants are estimated at 260 thousand barrels per day of petroleum. However, under the current provisions of ESECA only 53 thousand barrels per day can be saved by 1978 due to the requirement to meet environmental limitations imposed by State Implementation Plans (SIP's) by December 31, 1978. The table below indicates the conversion potential while maintaining the SIP compliance deadlines.

Table 1 - Coal Conversion Potential in the Northeast
AS ESECA Now Reads

	# of Plants	MW	BBl/Oil Per Day (000)	# of Plants Needing Fuel Desulphurizati Equipment
1975	2	161.0	3.68	0
1978	7	1,924.5	49.32	2
1980	17	7,495.7	144.30	11
1985	7	2,922.9	59.83	7

If the deadline for meeting state implementation plans is extended to December 31, 1978, and if the regional requirement currently within ESECA is removed (that no plant can be mandated to covert within a region where air pollution exceeds primary ambient standards) then 170 thousand barrels per day of petroleum savings can be obtained by 1978, over three times the savings in this timeframe, as shown in the table below.

Table 2 - Coal Conversion Potential in the Northeast Providing Regional Limitations are Removed and Meeting SIP's by Dec. 31, 1980

	# of Plants	MW	BBl/Oil Per Day (000)	# of Plants Needing Fuel Desulphurizati Equipment
1975	9	3,097.0	69.08	4*
1978	12	4,460.5	100.96	8 (6*)
1980	6	2,066.7	37.46	2
1985	6	2,805.3	49.62	6

*Need FGD by Dec 31, 1980.

The FEA is seeking extension of compliance deadlines for state implementation plans and removal of the regional limitation from ESECA. State governors can significantly reduce dependency on petroleum in the Northeast by supporting that effort.

Increase Local Refining Capacity

Although New England consumes about 1.2 million barrels per day of petroleum, it has only 20 thousand barrels per day of petroleum refining capacity, of which over 7,000 barrels per day consists of asphalt. An increase in indigenous refining capacity would not only decrease the costs of domestically produced petroleum consumed in the Northeast due to a reduction in transportation expenses, but would also reduce the dependency of the Northeast on imported petroleum products.

However, New England and Northeastern states have generally resisted attempts to construct refineries within these states during the last few years. If we had built all refineries which were planned but not constructed due to opposition of state and local organizations, the Northeast would have an additional 0.9 million barrels per day of refining capacity, thereby making the region approach refinery self-sufficienty. However, opposition from local citizen's groups, local environmental organizations, and state environmental boards have successfully opposed construction of every proposed refinery. Table 3 summaries the refineries planned, but not constructed, due to local and state opposition.

New England petroleum consumption is expected to increase to over 1.5 million barrels per day by 1985. For the New England states and the Northeastern states to be protected from arbitrary price increases in foreign countries on petroleum products, it is imperative that these states realize the benefits of siting refineries within their boundaries.

Increased Construction of Nuclear Power Facilities

At the end of 1974, 11.5% of 48,560 megawatts of electric generating capacity in the Northeast was fueled by nuclear power. Over 61% consisted of steam boilers fueled by petroleum. Nuclear generation is planned to increase to 31.4% of total generating capacity in 1983. Oil dependency in electrical generation at that time would be reduced to 44.7% of total generating capacity, as shown in Table 4.

TABLE 3

REFINERIES PLANNED BUT NOT CONSTRUCTED DUE TO OPPOSITION ON ENVIRONMENTAL GROUNDS

COMPANY	LOCATION	SIZE B/D	FINAL ACTION BLOCKING PROJECT
Fuels Desulfurization (1)	Riverhead, L.I.	200,000	City Council opposed project and would nc change zoning.
Maine Clean Fuels (1)	South Portland, Me.	200,000	City Council rejected proposal.
Maine Clean Fuels (1)	Searsport, Me.	200,000	Maine Environmental Protection Board rejected proposal.
Northeast Petroleum	Tiverton, R.I.	65,000	City Council rejected proposal.
Supermarine, Inc.	Hoboken, N.J.	100,000	Hoboken Project withdrawn under pressure from environmental groups.
Commerce Oil	Jamestown Island, R.I.-Narragansett Bay	50,000	Opposed by local organizations and contes in court.
Olympic Oil Refineries, Inc. (2)	Durham, N.H.	400,000	Withdrawn after rejection by local referendum.
C.H. Sprague & Son	Newington, N.H.	50,000	Voted down in community vote on June 28, 1974.

(1) Maine Clean Fuels and Georgia Refining Company are subsidiaries of Fuels Desulfurization and the refinery in question is the same in each case, so the capacity in B/D is not additive, but the incidents are independent and additive.

(2) Olympic is still considering other nearby sites.

For a reduction of dependency on petroleum in electrical generation, it is imperative that nuclear and coal based power plants provide nearly all the growth in generating capacity in the Northeast and New England states. However, the construction of New England nuclear power facilities has been delayed during the last year in several cases due to local protests associated with siting of these facilities. For example, Narragansett Electric Company which planned construction of multiple nuclear units in Charleston, Rhode Island, has delayed construction pending resolution of local protests surrounding the sale of Federal lands for this purpose. Other examples are shown in the table on the next page. In fact, nuclear facility construction delays in New England have effected about three quarters of new nuclear generation capacity planned to go into operation before 1983.

It is imperative that the proper balance of environmental safeguards and energy requirements be considered by state and local areas to assist in the proper and timely development of nuclear power facilities and to avoid further construction delays.

Offshore Leasing

The petroleum dependency of the Northeast can be reduced by the exploration and drilling of offshore areas in the Atlantic. Federal Government projectsion indicate that the Atlantic OCS may produce as much as 500,000 barrels of oil and 800 MMCF of natural gas per day, by 1985, if leasing and exploration are aggressively pursued.

However, as recently as January 10, 1975, coastal governors and their representatives at meetings in Dover, Delaware and in Princeton, New Jersey were raising strong opposition to Federal Government's offshore drilling plans. In fact, they recommended a halt to any more leasing until broad changes are made in the government's program. The Department of the Interior estimates that the changes requested would result in a 2-4 year delay in obtaining oil from these coastal waters.

TABLE 4

New England and New York Nuclear Power Facility Delays

Name of Company	Unit or Site	Size/Mfg.	Status/Remarks
New England Nuclear Energy Co. (Sub of No. East Utility System)	Montegue #1 & #2	1159 MW/GE	Have construction permit... Financial-lack of revenues Delay - 12 months
New York State Electric & Gas	Somerset #1 & #2	1150 MW/GE	Construction Permit not filed Delayed 24 months -- reduced need for power. Trial case of N.Y. State regulatory process.
Boston Edison	Pelgrim #2	1180 MW/	Construction Permit review in process. Mass. State Attorney interviewed on water discharge to Bay.
Narragansett Electric	Charleston R.I. Naval Base	multiple nuclear units	Held up pending resolution of local protest of GSA sale of land for this purpose.
Public Service of New Hampshire	Seabrook #1 & #2	1150/	Construction Permit review in process - strong local intervenor group expected in hearings - project 9-12 months delay.
New England Power Exchange	Sandy Point to Tewksberry	345 KV Transmission line	Delay four months - Prolonged State and local procedures
New England Power Exchange	Bill/Burl to Tewksberry	345 KV Transmission line	Delay four months - Prolonged State and local procedures
Boston Edison	Mystic Station to North Cambridge	345 KV Transmission line	Delay three months - State procedures.

GPO 886-098

SECTION 1.

The administration opposes the establishment of a domestic price ceiling on domestic crude oil. Senator Jackson assumes that such a ceiling would not increase its long-term supply price, which he calculates at no more than $7 to $8 a barrel.

Control of domestic prices below the world price would retard further exploration and development of domestic oil reserves. In addition, domestic supply would be reduced as the oil companies would invest in the foreign oil markets where greater profits could be made. Over time, inflation would also reduce the real price of oil that is controlled at some artificial limit, such as $7 or $8. This would have further negative effects on domestic supply and would not promote efficient use of petroleum by consumers and industry.

By decontrolling the price of domestic oil, as the administration proposes, we achieve significant conservation savings which Senator Jackson proposes elsewhere. Our analysis shows that decontrol will result in a domestic price of about $9 per barrel (in constant dollars -- that is $9 in 1975 or 1975 prices) will promote conservation without affecting economic growth. The proposed windfall profits tax will assure that domestic oil producers will not profit unreasonably from the decontrol of domestic production.

We completely agree with Senator Jackson that it is absolutely essential that we reduce imports by one million barrels a day, thereby reducing our balance of payments deficit by over $4 billion a year. The administration believes that its program will achieve this result by the end of 1975 and reduce imports by another million barrels by the end of 1977. The following short-term legislative proposals which will achieve this result are:

1) a $2/bbl excise tax on domestic crude oil and all petroleum imports.
2) a 37¢ excise tax on natural gas (which is the thermal equivalent of a $2/bbl excise tax,
3) deregulation of new natural gas, which is required to assure adequate future supplies of alternative sources of energy
4) increased use of coal as an alternative to oil through ammendments to the Energy Supply and Environmental coordination Act of 1974, and
5) legislation to allow production from the Naval Petroleum reserves for domestic needs.

The following table depicts the impact of the short-term program:

FIGURE 2

IMPACTS OF SHORT-TERM PROGRAM

	1975 [MMB/D]	1977 [MMB/D]
CONSUMPTION IF NO NEW ACTIONS	18.0	18.3
IMPORTS IF NO NEW ACTIONS	6.5	8.0
	IMPORT SAVINGS	
LESS SAVINGS BY SHORT-TERM ACTIONS:	1975 [MMB/D]	1977 [MMB/D]
PRODUCTION FROM ELK HILLS	0.2	0.3
COAL CONVERSION	0.1	0.3
TAX PACKAGE	0.9	1.6
TOTAL IMPORT SAVINGS	1.2	2.2
REMAINING IMPORTS	5.3	5.3

We agree with Senator Jackson that price increases in natural gas are essential to provide and adequate incentive for the development of natural gas supplies, but disagree with him in believing that the government should artificially keep the new prices well below the equivalent price of oil. Since our supplies of natural gas are severly limited, we should not encourage their use by setting an artificially low price when compared with other sources of energy.

SECTION 2

Senator Jackson suggests various legislative initiatives. We agree with most of them and the administration will submit appropriate legislation. The Emergency Standby Authorities Act will give the nation adequate means to cope with any future interruption of OPEC imports. It provides various contingency planning measures which include standby allocation and rationing authority, as well as mandatory conservation measures. In addition, the Act would give the President authority to implement the International Energy Program, which provides for contingency planning and oil sharing agreements by the major consuming countries. We also agree with Senator Jackson for the the need of a system of strategic petroleum reserves and will submit a National Strategic Reserve Act for this purpose. This Act would also provide for the exploration and development of the Naval Petroleum reserves, which would provide the main source of oil for the reserves.

However, we disagree with Senator Jackson that the Emergency Petroleum Allocation Act shoudl be further extended. It is essential that we return to the free market as soon as possible. Only by this means can we assure the development of increased supplies of domestic energy while limiting oil imports through reduced consumption. The only alternative is a permanent rationing and allocation program which would result in great inconvenience to all citizens and a disruption of our economy.

Section 3

With respect to conservation measures, the Administration's energy program includes a combination of mandatory and voluntary actions which will improve efficiency and reduce consumption of all fuels. These include mandatory national thermal efficiency standards for all new buildings, a 15% tax credit for thermal improvements in existing buildings, a $55 million program to provide assistance to the low income and elderly, mandatory appliance and automobile efficiency labeling, establishment of voluntary efficiency standards for all appliances, and a committment from the automobile industry to achieve and 40% increase in gas mileage by the 1980 model year.

In addition, the Federal government has taken the lead in energy conservation through its various procurement policies and the General Services Administration has achieved a considerable energy savings by reducing light, heating, and air-conditioning in Federal buildings. The Administration's committment to the development of a mass transit system has already been demonstrated by the passage of a mass transit bill which the President signed during the last session of Congress. The proposed Electric Utility Act would specifically encourgae conservation by requiring that state utility commissions remove any rules prohibiting utilities from charging lower rates for electric power during off-peak hours.

However, we have strong reservations of Senator Jackson's suggestion that we prohibit the use of new natural gas

phase out the use of all natural gas as a boiler fuel. Such a ban would cause extensive hardship and economic distress in many areas of the country where there are no alternative sources of energy and would also result in increased reliance on oil as a fuel, when we all are agreed that we must limit petroleum consumption as much as possible.

Section 4

The Administration has proposed the following action to increase domestic supply, while giving proper consideration to environmental goals. These involve increased leasing of Federal lands for coal production, passage of surface mining legislation which will increase and not impede, not result in coal production, and amendments to the Clean Air Act which will allow the increased use of coal or a fuel. Oil supplies would be increased through an expanded Outer Continental Shelf leasing program and the development and production of the Naval Petroleum reserves in Alaska. We are also proposing legislation which would speed up the licensing of nuclear plant and provide for the increased funding of safety and waste management programs. Proposed amendments to the Energy Supply and Coordination Act would increase the authority of the Federal government to require conversion of boilers to the use of coal, instead of oil-gas.

The Administration is also requesting legislation authorizing the President to use tariffs, import quotas, import price floors and other measures to achieve domestic energy price levels. This would stimulate the very expensive investment in secondary and tertiary recovery techniques as the private sector would be protected against a precipitous drop in world oil prices.

We strongly support expanded Federal Authority to increase petroleum production and productive efficiency. The Energy Research and Development Administration (ERDA) is the vehicle to achieve this end.

However, we do not agree with Senator Jackson that it is necessary to provide for a Federal preemption of state laws regarding utilization and the establishment of maximum efficient rates of oil production. We have, however, provided for such authority in extreme situations in the Standby Emergency Bill. Likewise, we do not support a blanket law mandating production from current oil leases. We must focus attention on the particular reasons for non-production in each case to be sure that we do not cause unnecessary and unreasonable hardships on individual leases, which could inadvertently result in an overall decrease in production.

SECTION 5.

Although the Federal Energy Administration supports a $20 billion energy research and development program, particularly for the encouragement of new technologies, the specification of a time schedule for the commercial application of evolving energy technologies is too rigid and inflexible.

SECTION 6.

The President is cognizant, as is Senator Jackson, of the necessity for Federal, State and local cooperation to deal with the critical economic and energy problems facing the nation. In this endeavor, the Administration is proposing that State governments be mandated the responsibility to develop energy facility management programs for long-term planning and achievement of energy production requirements by the expeditious consideration and processing of applications to site, construct and operate such facilities. A National Energy Site and Facility Plan ~~will~~ would be prepared by the Federal Government in consultation with State, industry and other appropriate Federal agencies.

States will be performing a vital role in the development and administration of energy conserving building standards for residential and commercial construction as well as initiating a winterization program for low-income persons. If the President's energy legislation is passed by Congress.

In an effort to provide financial aid and technical support to State and local governments participating in these national energy programs, the President has proposed grants on an annual basis to any State for the purpose of assisting in developing, initiating and administering an approved or promulgated energy facility management program. States will be able to allocate a portion of these funds to regional agencies or authorities.

Grant money ~~will~~ would also be available to States in the form of funds for the purchase of construction materials for

winterization of dwellings of low-income persons with technical assistance for implementation. A total of $50,000,000 during fiscal years 1976 through 1981 ~~will~~ would be allotted for winterization with an additional $5 million for administrative costs.

Further energy conservation efforts are proposed to authorize the Secretary of the Department of Housing and Urban Development to make grants to States to assist them in meeting the costs of developing State building codes or State certification standards. The States and units of general local government will receive technical aid in meeting these conservation standards.

The President is also initiating legislation to allow a tax credit for energy-saving modifications to existing residential housing.

Presently, the Federal Energy Administration is managing a $10 million cooperative agreements program to encourage the adoption of Federal energy objectives at the State level.

All of these actions demonstrate financial and technical assistance that will be invaluable to States in their development of energy programs and in shouldering their fair share of national and regional energy requirements.

Calendar No. 1204

93D CONGRESS
2D SESSION

S. RES. 425

IN THE SENATE OF THE UNITED STATES

OCTOBER 9, 1974

Mr. JACKSON (for himself, Mr. BIBLE, Mr. CHILES, Mr. EAGLETON, Mr. HASKELL, Mr. HOLLINGS, Mr. KENNEDY, Mr. MAGNUSON, Mr. MANSFIELD, Mr. METZENBAUM, Mr. MONDALE, Mr. NELSON, Mr. RANDOLPH, Mr. STEVENSON, and Mr. WILLIAMS) submitted the following resolution; which was ordered to lie over under the rule

OCTOBER 10, 1974

Ordered to be placed on the calendar

RESOLUTION

Proposing the establishment of a national energy program.

Whereas the arbitrary quadrupling of oil prices by the Organization of Petroleum Exporting Countries (OPEC) cartel has imposed severe strains on the international financial system, and is a primary cause of worldwide inflation, draining over $50,000,000,000 annually from consumers, threatening many industrial nations with economic collapse, and confronting third world nations with mass starvation; and

Whereas oil prices established by this international cartel have been the largest single factor in the Nation's current economic recession, in pushing domestic unemployment to a twelve-year high, in depressing the stock market, and in driving inflation and interest rates to unprecedented levels; and

Whereas the United States has the ability to control energy-induced inflation through policies governing the 85 per centum of its energy supply which is produced within the United

States, by increasing domestic energy production, and by undertaking stringent efforts to eliminate energy waste and promote conservation; and

Whereas dependence by the United States on a substantial volume of imported petroleum has created a grave domestic economic crisis, seriously inhibited our freedom of action in developing and implementing foreign policy, and could cause a severe shortage in the event of another embargo; and

Whereas the Nation has yet to mount a serious and sustained program to eliminate the wasteful use of energy in the United States and despite unprecedented price increases the production of domestic energy supplies continues to lag behind demand; and

Whereas it is imperative that the United States immediately undertake a massive peacetime effort to combat economic aggression abroad and to deal with energy shortages and energy induced inflation at home; and

Whereas the American people and the leaders of other nations should be fully apprised of the commitment of the legislative branch of the United States Government to initiate and implement—in a united, bipartisan, and cooperative manner—a national energy program designed to (1) give credibility to United States initiatives to deal with the economic and political challenge of the OPEC cartel; (2) promptly reduce dependence on cartel priced foreign oil; (3) dampen world and domestic inflation; and (4) secure a stable world economy in which the legitimate aspirations of all nations may be achieved: Now, therefore, be it

Resolved, That it is hereby declared to be the sense of the Senate that—

(1) The United States is committed to an energy pricing, import and tax policy which will—

(a) limit the price of all new domestic crude oil to a level that reflects its long-term supply price (no more than $7 to $8 per barrel) rather than the dictates of the OPEC cartel as a major element in a concerted effort to control exorbitant prices, reduce domestic inflation, and prevent unreasonable profits by exporter governments and United States companies alike;

(b) reduce imports of high-cost foreign oil by one million barrels per day, and thereby combat inflation, and cut over $4,000,000,000 from our balance-of-payments deficit;

(c) eliminate, through taxes or otherwise, the windfall oil and gas profits enjoyed by multinational oil companies; and

(d) reform natural gas pricing to eliminate uncertainty, maintain strict controls over old gas contracts, and provide adequate incentives for development of newly discovered gas through measured price increases which keep natural gas prices well below the equivalent of OPEC's arbitrary oil price.

(2) The United States should adopt legislation which will—

(a) extend the Emergency Petroleum Allocation

Act, the only Federal legislation which provides authority to control oil prices and equitably allocate scarce fuels among regions of the country and classes of consumers;

(b) mandate a program of international and domestic contingency planning to deal with energy shortages at home and abroad;

(c) establish standby energy emergency authority adequate to cope with a total interruption of OPEC imports, through gasoline rationing, conservation plans, allocation of essential materials, and appropriate export restrictions;

(d) require the immediate development of a system of strategic petroleum reserves composed of salt dome and tank storage by industry and the Federal Government equal to at least ninety days of imports; and

(e) assure that the United States has an opportunity to participate in any negotiations in the purchase of foreign oil and provide the President with authority to curtail and increase the price of United States exports to nations which unreasonably restrict United States access to their commodities by adoption of pending amendments to the Export Administration Act.

(3) The United States should adopt a national energy

conservation policy which will include mandatory provisions designed to—

(a) result in a 30 per centum improvement in automobile mileage in the 1976 model year and a 100 per centum improvement by 1980;

(b) commit the Nation to greater investment in a broadened mass transit program;

(c) redefine Federal and State regulatory policies which encourage or permit energy waste;

(d) impose new Federal procurement policies based upon energy efficiency and conservation;

(e) prohibit the use of new natural gas supplies for boiler fuel and phase out entirely over a reasonable period of time all use of gas as a boiler fuel;

(f) mandate the redesign of electric and gas utility rate structures to encourage conservation within twelve months;

(g) require mandatory labeling of energy-consuming appliances, homes, and automobiles to enable consumers to save energy and money through consumer charts;

(h) provide appropriate support for a program to insulate homes and small businesses with repayment of

loans tied to savings in fuel and air-conditioning bills; and

(i) assist State and local government in the development of energy conservation programs designed to achieve short- and long-term savings with a minimum disruption of State and local economies, including specifically the establishment of standards to reduce energy requirements for new homes and commercial establishments.

(4) The United States is committed to an energy production policy which will—

(a) expand Federal authority to increase petroleum production and productive efficiency, including mandatory unitization where State law does not provide for it, incentives and requirements for secondary and tertiary recovery of oil and gas, establishment of maximum efficient rates of production, and prohibition of market demand prorationing;

(b) develop and produce the Naval Petroleum Reserves in California and Wyoming to fill the Federal component of the strategic reserve system, and undertake on a priority basis prompt exploration of Naval Petroleum Reserve numbered 4 on the North Slope of Alaska;

(c) improve geological and environmental assess-

ment and inventorying of energy resources in the public domain;

(d) on the many existing Federal leases where production is lagging, require production or forfeiture of the leases;

(e) adopt an updated Federal coal-leasing policy and a surface mine control and reclamation bill, and establish a program to convert all industrial boiler fuel uses of oil and gas to coal over the next ten years to assure adequate domestic energy supplies while decreasing oil imports; and

(f) implement the foregoing policies and measures without repeal or erosion of regulatory or statutory measures which preserve and protect the public health, safety, welfare, and the quality of the Nation's land, air, and water resources.

(5) The United States is committed to an energy research and development program which has as its immediate goals—

(a) establishment of a $20,000,000,000 energy research and development program with specific timetables to demonstrate on commercial scale the technological capability of coal gasification, coal liquefaction, oil shale production, geothermal steam, and solar

energy, as well as new technology to use energy more efficiently; and

(b) creation of an Energy Research and Development Administration to administer the national energy research and development effort.

(6) The United States is committed to a program of Federal, State, and local cooperation to deal with the critical economic and energy problems facing the Nation, and the Federal Government will—

(a) provide financial aid and technical support to States and local government to assist in ameliorating and managing the primary and secondary environmental and socioeconomic impacts caused by the siting of energy-related facilities and the use of land, air, and water for energy production; and

(b) recognize that the States share with the Federal Government an equal responsibility for meeting the Nation's energy requirements;

And be it further

Resolved, That it is hereby declared to be the sense of the Senate that by taking the aforesaid actions, many of which can be implemented forthwith by the Administration under existing legislative authority and the pending amendments to the Export Administration Act, the President and

the Nation can combat inflation at home, and with export control authority, and strategic reserves bargain, in cooperation with other oil-consuming nations for concessions to alleviate a grave international crisis.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE ON DELIVERY JANUARY 23, 1975

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
WASHINGTON, D.C., THURSDAY, JANUARY 23, 1975
(PETROLEUM IMPORT FEES)

MR. CHAIRMAN, AT YESTERDAY'S HEARING YOU ASKED THAT I ADDRESS MYSELF THIS MORNING TO THAT PORTION OF THE PRESIDENT'S ENERGY PROPOSALS RELATING TO PETROLEUM IMPORT LICENSE FEES.

LEGAL AUTHORITY

THE ACTION THE PRESIDENT PROPOSES TO TAKE IS SPECIFICALLY AUTHORIZED UNDER SECTION 232 OF THE TRADE EXPANSION ACT OF 1962, AS AMENDED BY THE RECENTLY ENACTED TRADE REFORM ACT OF 1974.

SECTION 232 PROVIDES THAT IF THE SECRETARY OF THE TREASURY, AFTER APPROPRIATE INVESTIGATION, FINDS THAT AN ARTICLE IS BEING IMPORTED INTO THE UNITED STATES IN SUCH QUANTITIES OR UNDER SUCH CIRCUMSTANCES AS TO THREATEN TO IMPAIR THE NATIONAL SECURITY, HE SHOULD PROMPTLY ADVISE THE PRESIDENT OF THAT FACT. UNLESS THE PRESIDENT DETERMINES TO THE CONTRARY, HE MUST "TAKE SUCH ACTION, AND FOR SUCH TIME, AS HE DEEMS NECESSARY TO ADJUST THE IMPORTS OF SUCH ARTICLE AND ITS DERIVATIVES SO THAT SUCH IMPORTS WILL NOT THREATEN TO IMPAIR THE NATIONAL SECURITY."

THIS IS INDEED A BROAD GRANT OF AUTHORITY THAT INCLUDED AUTHORITY TO IMPOSE QUOTAS, LICENSE FEES AND OTHER TYPES OF IMPORT RESTRICTIONS.

AS PROVIDED BY TREASURY REGULATIONS, THE ASSISTANT SECRETARY FOR ENFORCEMENT, OPERATIONS, AND TARIFF AFFAIRS, DAVID R. MACDONALD, CONDUCTED THE INVESTIGATION PROVIDED FOR IN SECTION 232. BASED ON HIS REPORT AND UPON MY OWN KNOWLEDGE OF THE SITUATION, I REPORTED TO THE PRESIDENT THAT CRUDE OIL AND PETROLEUM PRODUCTS ARE BEING IMPORTED INTO THE UNITED STATES IN SUCH QUANTITIES AND UNDER SUCH CIRCUMSTANCES AS TO THREATEN TO IMPAIR THE NATIONAL SECURITY. I WOULD LIKE TO SUBMIT MY REPORT AND THAT OF ASSISTANT SECRETARY MACDONALD FOR THE RECORD OF THIS HEARING.

IN MAKING THIS INVESTIGATION, INFORMATION AND ADVICE WERE SOUGHT FROM THE SECRETARY OF DEFENSE, THE SECRETARY OF COMMERCE, AND OTHER CABINET AND AGENCY HEADS IN COMPLIANCE WITH THE SPECIFIC PROVISIONS OF SECTION 232. THE INFORMATION AND ADVICE PROVIDED BY THESE GOVERNMENT OFFICIALS ARE ATTACHED TO ASSISTANT SECRETARY MACDONALD'S REPORT. I WOULD POINT OUT, IN PARTICULAR, THAT BOTH THE SECRETARY OF STATE AND THE DEPARTMENT OF DEFENSE FOUND THAT PETROLEUM IMPORTS CONSTITUTED A THREAT TO THE NATIONAL SECURITY.

SECTION 232 ALSO PROVIDES THAT THE SECRETARY OF THE TREASURY SHALL, IF IT IS APPROPRIATE AND AFTER REASONABLE NOTICE, HOLD PUBLIC HEARINGS OR OTHERWISE AFFORD INTERESTED PARTIES AN OPPORTUNITY TO PRESENT INFORMATION AND ADVICE RELEVANT TO A NATIONAL SECURITY INVESTIGATION.

IN ADDITION, TREASURY DEPARTMENT REGULATIONS, IMPLEMENTING THE NATIONAL SECURITY PROVISION, ALLOWED AN EXCEPTION TO PROCEDURES FOR PUBLIC COMMENT WHEN IN MY JUDGMENT NATIONAL SECURITY INTERESTS REQUIRED THAT THESE PROCEDURES BE DISPENSED WITH.

WHEN, ON JANUARY 4, I DIRECTED ASSISTANT SECRETARY MACDONALD TO INITIATE AN INVESTIGATION TO DETERMINE THE EFFECTS ON THE NATIONAL SECURITY OF IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS, I ALSO DETERMINED THAT IT WOULD BE INAPPROPRIATE UNDER PRESENT CIRCUMSTANCES TO HOLD PUBLIC HEARINGS AND THAT NATIONAL SECURITY INTERESTS REQUIRED THAT THE PROCEDURES FOR PUBLIC COMMENT UNDER THE REGULATIONS NOT BE FOLLOWED. I DECIDED TO PROCEED IN THIS MANNER BECAUSE I BELIEVED THAT THE NATIONAL SECURITY REQUIRED AN IMMEDIATE DETERMINATION AND ACTION WITH REGARD TO PETROLEUM IMPORTS. IN ADDITION, I FELT IT APPROPRIATE TO DISPENSE WITH PUBLIC COMMENT BECAUSE A NUMBER OF INVESTIGATIONS AND HEARINGS ON THE EFFECT OF PETROLEUM IMPORTS HAD BEEN CARRIED ON DURING THE PAST YEAR, AND THE RESULTS OF THESE INVESTIGATIONS HAD BEEN MADE GENERALLY AVAILABLE.

THE ATTORNEY GENERAL, WHOSE OPINION I SUBMIT FOR THE RECORD, HAS CONCLUDED THAT TO PROCEED WITHOUT PUBLIC HEARING IS FULLY CONSISTENT WITH BOTH THE SPIRIT AND THE LETTER OF THE LAW AS RECENTLY AMENDED.

MR. CHAIRMAN, I BELIEVE THAT A CLEARER CASE COULD NOT BE MADE FOR THE USE IN THIS CASE OF THE STATUTORY AUTHORITY CONTAINED IN SECTION 232.

NATIONAL SECURITY

THE TEST WHICH MUST BE MET UNDER SECTION 232 OF THE TRADE EXPANSION ACT OF 1962 IN ORDER TO AUTHORIZE THE PRESIDENT TO ACT, IS THAT PETROLEUM "IS BEING IMPORTED INTO THE UNITED STATES IN SUCH QUANTITIES OR UNDER SUCH CIRCUMSTANCES AS TO THREATEN TO IMPAIR THE NATIONAL SECURITY." IN MAKING A DETERMINATION UNDER THE STATUTE, THE SECRETARY OF THE TREASURY TAKES INTO CONSIDERATION A NUMBER OF FACTORS, PROBABLY THE MOST IMPORTANT OF WHICH IS THAT THE ECONOMIC WELFARE OF THE COUNTRY IS CLOSELY TIED TO THE NATIONAL SECURITY OF THE COUNTRY.

ANYONE WHO LIVED THROUGH THE 1973-1974 OIL EMBARGO AND WATCHED THE SEVERE EFFECT IT HAD ON OUR ECONOMY, AND ANYONE WHO READS IN THE PAPERS THAT OVER TWO BILLION DOLLARS ARE LEAVING THIS COUNTRY EVERY MONTH TO PAY FOR PETROLEUM IMPORTS, COULD HARDLY CONCLUDE THAT OIL IMPORTS DO NOT POSE A THREAT TO OUR NATIONAL SECURITY.

THE FOLLOWING FACTS, IN MY VIEW, AMPLY JUSTIFY THE CONCLUSION THAT OIL IMPORTS THREATEN TO IMPAIR OUR NATIONAL SECURITY:

(1) PETROLEUM IS A UNIQUE COMMODITY, ENTERING INTO ALMOST EVERY FACET OF OUR ECONOMY, EITHER AS THE FUEL FOR TRANSPORTATION OF GOODS AND PEOPLE OR AS THE RAW MATERIAL FOR A MYRIAD OF PRODUCTS LIKE FERTILIZER AND PETROCHEMICALS;

(2) WE ARE NOW IMPORTING ABOUT 40% OF OUR TOTAL PETROLEUM CONSUMPTION;

(3) ONLY A SMALL PORTION OF THESE IMPORTS CAN BE DEEMED TO BE SECURE FROM INTERRUPTION IN THE EVENT OF A POLITICAL OR MILITARY CRISIS;

(4) MOST OF THE COUNTRIES WHICH EXPORT THE OIL THAT WE IMPORT ARE ORGANIZED INTO A CARTEL WHICH HAS, AT THE PRESENT TIME, SUCCESSFULLY MAXIMIZED OIL PRICES AT A LEVEL FOUR TIMES THAT WHICH PREVAILED PRIOR TO THE EMBARGO;

(5) THE OUTFLOW OF U. S. FUNDS AT AN ANNUAL RATE OF $25 BILLION TO THOSE OIL-RICH COUNTRIES GREATLY ENHANCES THEIR ECONOMIC AND POLITICAL POWER AND WEAKENS OUR OWN AND THAT OF OUR ALLIES;

(6) FINALLY, ALTHOUGH WE CANNOT AT THE PRESENT TIME, WITH SAFETY, STOP THE IMPORT OF ALL PETROLEUM TO THIS COUNTRY, THE CONSERVATION OF ONE MILLION BARRELS PER DAY IS BOTH NECESSARY AND DESIRABLE.

(7) OVER THE LONGER TERM, AN ECONOMIC MILIEU MUST BE CREATED WHICH WILL WEAN US AWAY FROM RELIANCE ON PETROLEUM IMPORTS.

MR. CHAIRMAN, IN THE FACE OF THESE FACTS, THE ONLY CONCLUSION I COULD POSSIBLY HAVE REACHED WAS THAT IMMEDIATE ACTION WAS NEEDED TO REDUCE OUR RELIANCE ON IMPORTED PETROLEUM AND THAT A FAILURE TO TAKE PROMPT ACTION WOULD INDEED SEVERELY THREATEN OUR NATIONAL SECURITY.

Policy Implications

Underlying all of the difficult economic and energy decisions required in preparing the President's economic program has been the need to move in a different direction away from policies that have created our current difficulties. To achieve our economic and energy goals we must reduce imports of expensive and insecure foreign oil so that by 1985 this Nation will no longer be vulnerable to an energy embargo. The President has specified a reduction of one million barrels of oil imports a day by the end of 1975 and of two million barrels before the end of 1977 as a first step. After carefully reviewing all of the options, I believe that he is correct in calling for immediate action to prove our willingness and capacity to act decisively to remove the national security threat described and to regain control of our economic destiny.

While achievement of these goals will require the long-term development of various energy resources we will have to rely on conservation in the near-term. The President has chosen the market approach rather than arbitrary controls because the results will be better and the interim economic distortions will not be as great. As I indicated in my testimony yesterday, I strongly support his decisions. The imposition of the import fees on crude oil and petroleum products is a vital part of his entire energy program.

CURRENTLY EXISTING FEES WILL BE INCREASED BY $3.00 PER BARREL ON IMPORTED CRUDE OIL AND BY $1.20 PER BARREL ON IMPORTED PETROLEUM PRODUCTS UNDER THE PRESIDENT'S ADMINISTRATIVE ACTION. IT IS ESTIMATED THAT THESE FEES WOULD INCREASE AVERAGE PETROLEUM PRICES BY ABOUT $.035 PER GALLON. IT IS ALSO ASSUMED THAT THESE FEES WOULD BE MODIFIED WHEN THE PRESIDENT'S LEGISLATIVE PACKAGE IS ACTED UPON.

I HAVE ATTEMPTED TO DETERMINE WHAT ECONOMIC RISKS, IF ANY, ARE CREATED BY THE DECISION TO MOVE AHEAD ON INCREASING THE IMPORT FEES ON CRUDE OIL AND PETROLEUM PRODUCTS. POSSIBLE RISKS INCLUDE: (1) THAT THE INCREASED TAXES MAY RESTRICT THE ENTIRE ECONOMY BY REDUCING THE AVAILABLE PURCHASING POWER OF INDIVIDUALS AND BUSINESSES; (2) THAT THE TAX COLLECTIONS AND OFFSETTING REDUCTIONS MAY NOT BE COORDINATED; (3) THAT GEOGRAPHICAL OR SPECIFIC INDUSTRY INEQUITIES MAY RESULT; AND (4) THAT THE INCREASED FEES MAY SIGNIFICANTLY INCREASE INFLATION PRESSURES.

THE PRESIDENT'S PROGRAM EFFECTIVELY OVERCOMES THE FIRST PROBLEM BY RETURNING $19 BILLION TO INDIVIDUALS, $6 BILLION TO BUSINESSES AND $2 BILLION TO STATE AND LOCAL GOVERNMENTS. THE TAX BRACKET ADJUSTMENTS FOR INDIVIDUALS ARE DESIGNED TO FAVOR LOW- AND MIDDLE-INCOME FAMILIES AND THOSE WHO DO NOT PAY ANY TAXES WILL RECEIVE $2 BILLION OF BENEFITS. NOR IS THE PHASING OF THE COLLECTION AND REDISTRIBUTION OF THE IMPORT FEES AN INSURMOUNTABLE PROBLEM. AS INDICATED IN TABLE 1, THE IMPORT FEES ARE EXPECTED TO TOTAL ONLY $200 MILLION DURING THE FIRST THREE MONTHS OF 1975.

THE FEES WOULD INCREASE TO $400 MILLION UNDER THE ADMINISTRATIVE AUTHORITY AND $700 MILLION UNDER THE NEW LEGISLATION REQUESTED BY THE PRESIDENT. FEES OF $900 BILLION ARE PROJECTED FOR THE THIRD AND FOURTH QUARTERS OF 1975. THE REDISTRIBUTION OF THESE FEES THROUGH THE INCOME TAX SYSTEM CAN BEGIN IN JUNE 1975 IF THE NECESSARY LEGISLATION IS ENACTED QUICKLY. THEREFORE, THE POTENTIAL COLLECTION OF FEES PRIOR TO GETTING THE REDISTRIBUTION SYSTEM OPERATING IS NOT A MAJOR PROBLEM. IN FACT, THE NET EFFECT OF THE ENTIRE ENERGY TAX REDISTRIBUTION AND TEMPORARY TAX CUT PROPOSED BY THE PRESIDENT IS AS FOLLOWS (NEGATIVE FIGURES INDICATE AMOUNT OF STIMULUS TO ECONOMY):

TIMING OF DIRECT BUDGET IMPACT
(DOLLARS IN BILLIONS)

	1975 I	1975 II	1975 III	1975 IV
ENERGY TAXES	+0.2	+4.1	+12.6	+7.6
REDISTRIBUTION AND TEMPORARY TAX CUT	-0.0	-9.8	-20.2	-10.8
NET EFFECT	+0.2	-5.7	- 7.6	- 3.2

AS TO THE THIRD RISK INVOLVING GEOGRAPHICAL AND INDUSTRY SECTOR INEQUITIES, THE PRESIDENT AND HIS ENERGY ADVISERS HAVE REPEATEDLY EMPHASIZED THAT THEY WILL WORK TO EVEN OUT SUCH DISTORTIONS WHENEVER POSSIBLE. THE SPECIAL CONSIDERATION BEING GIVEN TO NEW ENGLAND STATES, AND CURRENT MEETINGS WITH VARIOUS INDUSTRY REPRESENTATIVES ARE GOOD EXAMPLES.

THE POSSIBLE EFFECTS ON PRICES ARE MORE DIFFICULT TO DETERMINE. THE ENTIRE ENERGY PACKAGE IS EXPECTED TO CAUSE A ONE-TIME INCREASE IN THE PRICE INDEXES OF APPROXIMATELY 2 PERCENT. THIS ESTIMATE COMBINES THE DIRECT AND RIPPLE EFFECTS OF THE ENTIRE $30 BILLION ENERGY CONSERVATION TAXES AND FEES PACKAGE. THIS FIGURE IS, OF COURSE, AN ESTIMATE BUT WE HAVE CHECKED IT THOROUGHLY AND BELIEVE THAT IT IS REASONABLE. IN CALENDAR YEAR 1975 THE IMPORT FEES ARE EXPECTED TO TOTAL $3.2 BILLION ($0.6 AND $2.6 BILLION FIGURES FROM TABLE 1), OR 12.2 PERCENT OF THE TOTAL RECEIPTS. IN CALENDAR YEAR 1976 THE IMPORT FEES ARE PROJECTED TO BE $4.1 BILLION ON 13.6 PERCENT OF THE TOTAL. THEREFORE, THE POTENTIAL INFLATION IMPACT OF THE OIL IMPORT FEE PART OF THE ENERGY PACKAGE IS SMALL.

SUMMARY:

BASED ON MY ANALYSIS OF THE LEGAL AUTHORITY, NATIONAL SECURITY REQUIREMENTS AND ECONOMIC CONSEQUENCES OF THE OIL IMPORT FEE PROCLAMATION, I BELIEVE THAT WE SHOULD MOVE AHEAD WITH THIS IMPORTANT PART OF THE PRESIDENT'S OVERALL ENERGY PROGRAM.

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Energy Taxes

($ billions)

	Calendar year liability	Calendar Year 1975 I	1975 II	1975 III	1975 IV	1976 I	1976 II	1976 III	1976 IV	1977 I	1977 II
		(Fiscal 1975)				(... Fiscal Year 1976 ....)				(... Fiscal Year 1977 ....)	
Calendar year 1975											
Tariff	+0.6	+0.2	+0.4								
Oil:											
Excise	+4.8	--	+1.3	+1.6	+1.6	+0.3					
Tariff	+2.6	--	+0.7	+0.9	+0.9	+0.1					
Gas	+6.3	--	+1.7	+2.1	+2.1	+0.4					
Windfall profits tax	+12.0	--		+8.0	+3.0	+1.0					
Total	+26.3	+0.2	+4.1	+12.6	+7.6	+1.8					
Calendar year 1976											
Tariff	--	--	--	--	--	--	--	--	--	--	--
Oil:											
Excise	+7.2	--	--	--	--	+1.5	+1.8	+1.8	+1.8	+0.3	
Tariff	+4.1	--	--	--	--	+0.8	+1.1	+1.1	+1.0	+0.1	
Gas	+8.8	--	--	--	--	+1.6	+2.2	+2.2	+2.4	+0.4	
Windfall profits tax	+10.0	--	--	--	--	+1.9	+2.4	+2.4	+2.3	+1.0	
Total	+30.1	--	--	--	--	+5.8	+7.5	+7.5	+7.5	+1.8	
Total liability	+56.4										
Fiscal year effect		+0.2	+4.1	+12.6	+7.6	+7.6	+7.5	+7.5	+7.5	+1.8	
Fiscal year total			+4.3				+35.3				(+16.8)

Office of the Secretary of the Treasury
Office of Tax Analysis

January 17, 1975

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

JAN 14 '75

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Report on Section 232 Investigation on Petroleum Imports

This report is submitted to you pursuant to Section 232 of the Trade Expansion Act of 1962, as amended, and results from an investigation that I initiated under that Section for the purpose of determining whether petroleum* is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

At the present time, the demand for petroleum in the United States is 18.7 million barrels per day. Of this amount, imports provide 7.4 million barrels daily. The deficit in petroleum production compared with demand has grown since 1966, when the United States ceased to be self-sufficient.

Our increasing dependence upon foreign petroleum had, by 1973, created a potential problem to our economic welfare in the event that supplies from foreign sources were interrupted. Its adverse contribution to our balance of payments position had also significantly increased, and for the year 1973 the outflow in payments for the purchase of foreign petroleum was running at $8.3 billion annually, only partially offset by exports of petroleum products.

In September 1973, the worsening petroleum import situation was further seriously aggravated by an embargo on crude oil imposed by the Organization of Petroleum Exporting Countries, which effectively kept 2.4 million [illegible] barrels of oil per day from U. S. shores. After the initiation of the embargo, the price of imported oil quadrupled from approximately $2.50 per barrel to approximately $10.00 per barrel and has since that time risen somewhat further. Simultaneously, the balance of payments

*As used in this report, means crude oil, [illegible] crude oil derivatives and products, and related products derived from natural gas and coal tar.

problem deteriorated by reason of the increased oil bill paid by United States consuming interests. Today the outflow of payments for petroleum is running at a rate of $25 billion annually.

As a result of my investigation, I conclude that the petroleum consumption in the United States could be reduced by conserving approximately one million barrels per day without substantially adversely affecting the level of economic activity in the United States. Any sudden supply interruption in excess of this amount, however, and particularly a recurrence of the 2.4 million barrel per day reduction which occurred during the OPEC embargo, would have a prompt substantial impact upon our economic well-being, and, considering the close relation between this nation's economic welfare and our national security, would clearly threaten to impair our national security.

Furthermore, in the event of a world-wide political or military crisis, it is not improbable that a more complete interruption of the flow of imported petroleum would occur. In that event, the total U. S. production of about 11 million barrels per day might well be insufficient to supply adequately a war-time economy, even after mandatory conservation measures are imposed. As a result, the national security would not merely be threatened, but could be immediately, directly and adversely affected.

In addition, the price at which oil imports are now purchased causes a massive payments outflow to other countries. The inevitable result of such an outflow is to reduce the flexibility and viability of our foreign policy objectives. For this reason, therefore, a payments outflow poses a more intangible, but just as real, threat to the security of the United States as the threat of petroleum supply interruption. On both grounds, decisive action is essential.

DEPARTMENT OF THE TREASURY

REPORT OF INVESTIGATION OF EFFECT OF PETROLEUM IMPORTS AND PETROLEUM PRODUCTS ON THE NATIONAL SECURITY PURSUANT TO SECTION 232 OF THE TRADE EXPANSION ACT, AS AMENDED

By

The Assistant Secretary of the Treasury
for Enforcement, Operations and Tariff Affairs,
David R. Macdonald

January 13, 1975

FINDINGS

As a result of my investigation, I have found that crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar are being imported into the United States in such quantities as to threaten to impair the national security. I further find that the foregoing products are being imported into the United States under such circumstances as to threaten to impair the national security.

RECOMMENDATIONS

I therefore recommend that appropriate action be taken to reduce imports of crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar into the United States, to promote a lessened reliance upon such imports, to reduce the payments outflow and to create incentives for the use of alternative sources of energy to such imports. I understand that a Presidential Proclamation pursuant to Section 232 of the Trade Expansion Act of 1962 is being drafted by the Federal Energy Administration consistent with these recommendations.

(Signed) William E. Simon

William E. Simon

REPORT OF INVESTIGATION UNDER SECTION 232 OF THE TRADE EXPANSION ACT, AS AMENDED, 19 U.S.C. 1862

I. INTRODUCTION AND SUMMARY

This investigation is being conducted at the request of and on behalf of the Secretary of the Treasury pursuant to his authority under Section 232 of the Trade Expansion Act (the "Act"), as amended, 19 U.S.C. 1862. (Annex A) The purpose of the investigation is to determine whether crude oil, crude oil derivatives and products, and related products derived from natural gas and coal tar are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security. Under 31 CFR 9.3, the Assistant Secretary of the Treasury for Enforcement, Operations, and Tariff Affairs is responsible for making this investigation.

The Secretary of the Treasury has determined pursuant to Section 232 that it would be inappropriate to hold public hearings, or otherwise afford interested parties an opportunity to present information and advice relevant to this investigation. He has also determined pursuant to his authority under 31 CFR 9.8 that national security interests require that the procedures providing for public notice and opportunity for public comment set forth at 31 CFR Part 9 not be followed in this case. (Annex A)

In conducting the investigation, information and advice have been sought from the Secretary of Defense, the Secretary of Commerce, and other appropriate officers of the United States to determine the effects on the national security of imports of the articles which are the subject of the investigation. Information and advice have been received from the Departments of State, Defense, Interior, Commerce, Labor, the Council of Economic Advisers, and the Federal Energy Administration. (Annex B)

In summary, the conclusion of this report is that petroleum <u>is</u> being imported in such quantities and under such circumstances as to threaten to impair the national security of this country.

Petroleum is a unique commodity: it is essential to almost every sector of our economy, either as a raw material component or as the fuel for processing or transporting goods. It is thus essential to the maintenance of our gross national

product and overall economic health. Only a small percentage of present U. S. petroleum imports could be deemed to be secure from interruption in the event of a major world crisis. The quantity of petroleum imports, moreover, is now such a high percentage of total U. S. consumption that an interruption larger than one million barrels per day at the present time would adversely affect our economy. If our imports not presently deemed to be secure from interruption were in fact kept from our shores, the effect on the U. S. economy would be staggering and would clearly reach beyond a matter of inconvenience, or loss of raw materials and fuel for industries not essential to our national security. The outflow in payments for petroleum also poses a clear threat not only to our wellbeing, but to the welfare of our allies. As the State Department has concluded, the massive transfer of wealth greatly enhances the economic and political power of oil rich states who do not necessarily share our foreign policy objectives, and correspondingly tends to erode the political power of the United States and its allies.

The purpose of this investigation under Section 232 of the Act is to determine the effects of our level of imported petroleum upon our national security and not to fashion a remedy. Nevertheless, it would appear that we must, over the longer term, wean ourselves away from a dependence upon imported oil, conserve our use of petroleum, promote the use of alternative sources of energy, and at least in part, stanch the outflow of payments resulting from our purchases of this commodity. As Secretary Kissinger states:

> "Clearly, decisive action is essential. We have signalled our intention to move toward energy self-sufficiency. We must now demonstrate with action the strength of our commitment. In the short-term, our only viable economic policy option is an effective program of energy conservation. A vigorous United States lead on conservation will encourage similar action by other consuming nations. Consumer cooperation on conservation now and then development of new supplies over time will deter producer aggressiveness by demonstrating that consumers are capable of acting together to defend their interests."

II. STATUTORY CONSIDERATIONS

This investigation has proceeded in recognition of the close relationship of the economic welfare of the Nation to our national security. As required by Section 232, consideration has been given to domestic production of crude oil and the other products under investigation needed for projected defense requirements, the existing and anticipated availability of these raw materials and products which are essential to the national defense, the requirements of the growth of the domestic petroleum industry and supplies of crude oil and crude oil products, and the importation of goods in terms of their quantities, availabilities, character and use as those affect the domestic petroleum industry and the ability of the United States to meet its national security requirements.

In addition, other relevant factors required or permitted by Section 232 have been considered, including the amount of current domestic demand for petroleum and petroleum products which is being supplied from foreign sources, the degree of risk of interruption of the supply of such products from these countries, the impact on the economy and our national defense of an interruption of such supplies including the effects on labor, and the effect of the prices charged for foreign petroleum and petroleum products on our national security.

III. IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS

During the first eight months of 1974, the United States imported approximately 5.8 million barrels per day of petroleum and petroleum products. (Annex C) This figure amounted to 35.6 percent of total United States demand for such products during this period. The latest data available indicates that United States dependence on imported oil is growing. For the four weeks ending December 13, 1974, the United States imported about 7.4 million barrels per day of petroleum and petroleum products, which represented 39.5 percent of total United States demand for such products during the same period. (Annex C)

Imports into the United States may be divided into two major sources, the nations belonging to the Organization of Petroleum Exporting Countries (OPEC) and other nations. (Annex D) The OPEC nations have far more production capacity than the non-OPEC nations. Of the world's total production of approximately 55 million barrels per day, OPEC members produce 30 million barrels, Communist countries 11 million and the balance of 14 million barrels per day is produced by other countries including the U. S. 1/ Moreover, the OPEC countries have over 8 million barrels per day of production potential which is not being utilized while virtually no unused capacity exists in the rest of the world. 2/

Most recent indicators show that 3.5 million barrels per day of crude oil and petroleum products are being imported by the U. S. directly from the OPEC member states. (Annex D) In addition, as much as 850,000 barrels per day of finished products imported into the U. S. from third country sources may originate from OPEC nations. 3/ In total, 4.35 million barrels per day of the 1974 U. S. demand of approximately 17.0 million barrels per day came from OPEC sources. In percentage terms, U. S. imports from OPEC members account for over 25% of domestic demand.

The major Western Hemisphere suppliers of petroleum to the United States are Canada and Venezuela. The latter country provided the United States with approximately 1.1 million barrels per day from January through October 1974. For the same period, Canada exported to the U. S. over 1,000,000 barrels per day or slightly over 17% of our imported supplies.

The Canadian Government has recently conducted a study of its own energy potential. It concluded that steps should be taken to reduce exports of oil with a view to conserving petroleum for future Canadian requirements. 4/ Accordingly, on November 22, 1974, the Canadian Government announced its intention to limit exports to the U. S. to 650,000 barrels per day by the end of 1975. Further reductions in exports will take place after annual reviews. As a result, it appears that the U. S. can no longer count on the availability of large volumes of oil from Canada but may have to increase our reliance on OPEC to make up for the reduction of Canadian imports.

In summary, 60 percent of current imports of crude oil comes directly from OPEC members and another 15 percent is refined by third countries using OPEC crude oil. At least 85% of the imported petroleum, however, whether from OPEC or non-OPEC countries, appears to be subject to the threat of interruption in the event of a crisis. Moreover, the outlook in the short run is for the percentage of imports derived from OPEC members to increase as a result of limitations on Canadian exports.

IV. EFFECT OF 1973-1974 EMBARGO ON THE DOMESTIC ECONOMY

The interruption of the supply of a major part of U. S. imports of petroleum during the Winter of 1973-74 had a serious adverse impact on the economy of the United States.

In his memorandum, Secretary Dent stated:

> "The experience of the Arab oil embargo last year, even though it halted only about one-half of our oil imports, confirms the risk of disruption to the economy which is implicit in dependence on imports of oil to this degree. The oil embargo is believed to have produced a reduction in U. S. GNP by some $10 to 20 billion. All sectors of the economy were adversely affected, with the consumer durables sector and housing construction most heavily hit. Further, it is estimated that a substantial part of the inflationary rise of prices during 1974, particularly in the first half, is attributable to the direct and indirect effects of the rise in overall energy costs which followed the rapid escalation of costs for Arab oil. In view of this record of injury caused by loss of foreign oil supply and our continuing vulnerability to future injury of even greater impact, it is my opinion that imports at current and projected levels do constitute a threat to impair the national security."

The Federal Energy Administration noted in its Project Independence report that the embargo's impact was serious as a result of the nation's high level of dependence upon foreign petroleum imports. In the years 1960 through 1973 U. S. production did not keep pace with U. S. consumption of petroleum. The resulting gap represented the level of U. S. imports, which increased drastically:

U. S. Production and Consumption of Petroleum 1/
(1960-73)
Petroleum (Millions Barrels/Day)

Year	Production	Consumption	Gap (Imports)
1960	8.0	9.5	1.5
1965	8.8	10.8	2.0
1970	11.3	14.7	3.4
1972	11.2	16.4	5.2
1973	10.9	17.3	6.4

The impact of the embargo on imports can be shown by a comparison of import figures for both crude and refined oil imports for each of the months September 1973 through February 1974, and the percent change reflected in such figures from the same months of the preceding year:

Monthly Imports
Before and During the Oil Embargo 2/
(Millions Barrels/Day)

	Crude Oil	% Change from Previous Year	Total Refined Products	% Change from Previous Year
Sept 1973	3.47	+47	2.65	+26
Oct	3.86	+49	2.67	+ 9
Nov	3.45	+50	3.14	+30
Dec	3.99	+45	2.90	+ 1
Jan 1974	2.46	-13	2.85	- 4
Feb	2.10	-22	2.55	+17*

*The indicated positive balance in this month is reflected by the disproportionately large imports of motor gasoline, to accomodate critical shortages of this refined product.

Both the National Petroleum Council and the Federal Energy Administration have made detailed analyses of the impact of the 1973-74 embargo. A demand reduction of over 1 million barrels per day has been attributed to curtailment and conservation. These savings occurred in areas which caused minimum individual or collective hardship. However, many such savings were the result of one-time only reductions in usage patterns, such as lowering of thermostat levels. Once accomplished, by voluntary or other restraints upon energy usage, such savings cannot thereafter be duplicated.

The cost of the embargo to the economy, in terms of both increased energy costs and adverse impacts on the labor market, was severe. During the first quarter of 1974, the seasonally adjusted Gross National Product fell by 7% and the seasonally adjusted unemployment rate changed from 4.6% in October 1973 to 5.1% by March of 1974. Of course there were other factors at work in the economy during this period and it is difficult to isolate those declines attributable solely to the embargo. However, according to the FEA, increased energy prices during the embargo period were responsible for

at least 30% of the increase in the Consumer Price Index with the long-term effects of the embargo and the subsequent price rises continuing after the embargo was lifted. As the FEA has pointed out, a comparison of the nation's economic performance for the two years preceding the embargo with the first quarter of 1974 demonstrates a clear and uninterrupted upward historical trend (albeit a reduced rate of increase beginning in the second quarter of 1973) followed by a sudden sharp decline during the relevant period:

Gross National Product Statistics 3/
(1972-1974)

	Real GNP a/	Present Changes in GNP from Preceding Quarter (Annual Rate)
1972 - I	768.0	
II	785.6	9.5
III	796.7	5.7
IV	812.3	8.0
1973 - I	829.3	8.6
II	834.3	2.4
III	841.3	3.4
IV	844.6	1.6
1974 - I	831.0	-6.3

a/ Seasonally adjusted at annual rates in billions of 1958 dollars.

A similar effect has been identified by FEA with respect to real personal consumption expenditures and real fixed investments. These are set forth in detail in the Appendix to the Project Independence Report, and are not set forth in detail herein.

Following the embargo, the Department of Commerce reduced its forecast of real output for the first quarter of 1974 by $10.4 billion, and its forecast for the first quarter of 1975 by $15 billion.4/ Again, studies showing detailed effects upon the labor market and contributions to changes for selected items within the CPI have been analyzed in detail by the Department of Commerce and the Federal Energy Administration, and set forth in the Project Independence Report.

The adverse change of .5% in the seasonally adjusted national unemployment rate between October 1973 and March 1974 represents an increase of approximately 500,000 unemployed people. The Department of Labor has estimated that during the period of embargo 150,000 to 225,000 jobs were lost as a direct result of employers' inability to acquire petroleum supplies. An additional decline of approximately 310,000 jobs occurred as an indirect result of such shortages in industries whose products or processes were subject to reduced demand as a result thereof (most notably, the automobile industry). The Department of Labor estimates that 85% of the total jobs lost were those of semi-skilled workers, 5% clerical and 3% professional, technical and skilled.5/

The Federal Energy Administration has projected the loss in economic activity (GNP) which could be reasonably correlated to a shortfall in oil supplies. The pattern of this correlation indicates that at any given time, the economy can absorb a modest reduction in consumption before painful reductions in economic activity occur. After this reduction in nonessential uses of oil is made, further reductions of oil supplies will result in sharply increasing losses in the GNP. Based on such models, the FEA has determined the impacts of interruption of imports under several conditions. For example, a recently calculated situation shows that a 2.2 million bbl/day import reduction for six months' duration is estimated to cause a $22.4 billion reduction in GNP.6/

The Federal Energy Administration estimates that a reduction in consumption of approximately 1 million barrels per day can be managed without imposing prohibitive costs on the economy. While recognizing that a figure of 1 million barrels per day is not precise, it does approximate a reasonable estimate of the short-term reduction beyond which more severe economic readjustments would take place. Of the 17 million barrels per day current demand, it is estimated that 16 million is the proximate quantity required to prevent progressive deterioration of the economy at the present time.

It should also be noted that the impacts of any supply interruptions will be disproportionately felt in the various regions of the country. The major determinants of the impact

within any given region is the amount of imports into that region, climatic conditions of the region, and the industries located there. The northwestern and northeastern parts of the country import large amounts of their petroleum requirements, the climatic conditions require them to use more energy for heating than other regions, and they have more energy using manufacturing industries in general than other parts of the country (this is especially true of the Northeast).

The direct effects of an embargo would be concentrated in PAD (Petroleum Administration for Defense) Districts 1 and 5. PAD District 1 includes the Eastern Seaboard of the U. S. where it is estimated that 83 percent of the 1975 crude petroleum demand will be imported. In PAD District 5, the West Coast of the U. S. including Alaska and Hawaii, imports are 43 percent of total uses. The East Coast problem is especially difficult because of the high fuel oil demands in the New England area and the fact that approximately 98 percent of the residual fuel oil for PAD District 1 is imported as a refined product or made from imported crude.7/

V. VULNERABILITY OF U. S. ECONOMY TO OIL AND DEVELOPMENT OF ALTERNATE ENERGY SOURCES

The vulnerability of the U. S. economy to petroleum supply interruptions is highlighted by (1) the fact that it is the backbone, not only of our defense energy needs, but also of our economic welfare, and (2) the difficulty of bringing in alternate energy sources immediately.

Although there may have been some recent minor changes, the 1973 figures show that petroleum accounted for 46 percent of domestic energy consumption, natural gas for 31 percent, coal for 18 percent, hydropower for 4 percent and nuclear for 1 percent. (Annex E)

The degree to which other energy forms can in the short run be physically substituted for oil is limited. Residual oil used in heating or utilities can be replaced with coal only after conversion of the plant's combustion facilities has taken place. Other energy sources are limited in supply or feasibility of use. Supplies of natural gas are declining and an interstate pipeline curtailment of 919 billion cu. ft. is expected in the 1974-75 heating season. 1/ The natural gas reserve/production ratio has declined from 21.1 in 1959 to 11.1 in 1973, 2/ indicating the production potential is seriously impaired. It does not appear that we can substitute natural gas for oil. On the contrary, the prospects are that either oil or coal may have to be substituted for natural gas. The nation's ability to increase its hydroelectric power generating capacity is severely limited. Other energy sources such as nuclear electrical generating power require long lead times for development and will not be available in materially increased quantities for a number of years. For example, nuclear power is not expected to reach a significant percentage (12%) of our total energy capacity until 1985. 3/ The availability of coal is subject to further mine development, expansion of transportation systems and convertibility of furnaces and boilers, all of which require significant development time. Moreover, both the production and combustion of coal is currently subject to environmental restrictions which further limit its accelerated development as an energy source.

The outlook for increasing production of crude oil from domestic sources is not favorable for the near term. Domestic

production has declined from 9.6 million barrels per day in 1970 to 8.7 million barrels per day in December 1974. A further gradual decline is anticipated until oil from the North Slope of Alaska becomes available in late 1977, or until oil is produced from presently undeveloped areas as the Outer Continental Shelf. Nevertheless, the sharp increase in the price of oil should stimulate increased exploration which, in the intermediate or longer term, if combined with conservation efforts should ameliorate the present threat to our economy.

Also, long-term energy sources such as the development of geothermal and oil shale energy resources and the practical utilization of solar energy require major advances in the technology involved. This technology may take several years to develop, but should assist in the solution of the domestic shortage of energy sources if sufficient incentive is provided.

VI. THREAT TO THE NATIONAL SECURITY OF FUTURE SUPPLY INTERRUPTIONS

Section IV has described the serious impact on the national economy and consequently on the national security of the winter 1973-1974 embargo. It is reasonable to expect similar or even worse effects of an interruption of supply in the future, particularly in light of increasing dependence on foreign sources of supply. U. S. production is declining 1/ and alternative sources of energy supply require a long lead time for development. 2/ Moreover, supplies from the most secure Western Hemisphere sources are likely to decline as illustrated by the Canadian action to reduce oil exports to the United States.

The Department of Defense has described the risks to our national security posed by the threat of a future supply interruption. The Department of Defense, in its memorandum to me of January 9, 1975, stated:

> "The Department of Defense holds that this nation must have the capability to meet the essential energy requirements of its military forces and of its civil economy from secure sources not subject to military, economic or political interdiction. While it may be that complete national energy self-sufficiency is unnecessary, the degree of our sufficiency must be such that any potential supply denial will be sustainable for an extended period without degradation of military readiness or operations, and without significant impact on industrial output or the welfare of the populace. This is true because the national security is threatened when: (1) the national economy is depressed; (2) we are obliged to rely on non-secure sources for essential quantities of fuel; (3) costs for essential fuels are unduly high; and (4) we reach a point where secure available internal fuel resources are exhausted.
>
> "As you know, the Mandatory Oil Import Program was established in 1959 for the express purpose of controlling the quantity of imported oil which at that time had been found to threaten to impair the national security. In the intervening years we have

observed with growing concern the decline in domestic and western hemisphere petroleum productive capacity in relation to demand. The result has been a rapid expansion in our dependence on eastern hemisphere sources for the oil which is so essential to our military needs and the nation's economy. By 1973 that dependence had reached a level which risked substantial harm to the national economy in event of a peacetime supply denial. In event of general war, those risks would be substantially greater because of the sharply increased level of military petroleum consumption which would require support from domestic petroleum resources. The 1973 Arab oil embargo offered proof, if proof were needed, of the deterioration in our national energy situation.

"Energy conservation efforts and expanded use of alternate fuels halted the growth in crude oil and product imports during much of 1974. However, production of both oil and gas in the United States continues to decline, and indications are that import growth has resumed. Projections for 1975 indicate that imports may exceed seven million barrels a day, sharply higher than in 1974 and equal to near 19 percent of the probable total energy supply in 1975. To the extent that demand for petroleum imports causes increasing reliance on insecure sources of fuel, then such demand/reliance is a severe threat to our security."

Although oil exporters vary in their specific national goals and from time to time make unilateral decisions in regard to oil policies, oil exporters have the potential to bring about concerted actions which can explicitly deny the U. S. needed imports through such actions as last year's embargo. The loss in GNP growth and the significant unemployment created have on their face a significant impact in terms of the overall strength of the national economy. Continued reliance on foreign sources of supply leaves the U. S. economy vulnerable to further disruptive, abrupt curtailment or embargo of supplies, as well as to further increases in prices. Consequently, it is only prudent from a national security standpoint to plan for the possibility that another embargo, or other type of supply interruption, could occur.

VII. THE EXCESSIVE RELIANCE ON IMPORTED OIL AS A SOURCE OF WEAKNESS IN A FLEXIBLE FOREIGN POLICY

The dependence of the United States on imported petroleum can also adversely affect the ability to achieve our foreign policy objectives.

A healthy and vital domestic economy coupled with modern and adequate defense forces are the basic elements of strength in protecting our national security, but equally important in today's interdependent world is the continued smooth functioning of the international economic system and, in particular, the economic strength and viability of our Allies. The economies of many of these countries are almost totally dependent on imported oil and are therefore much more vulnerable to the threat of a new oil embargo. This could adversely affect the extent to which we can rely on those Allies in the event of a serious political or military threat to this country.

The risk to our Allies and to ourselves comes not only from the possibility of disruptions of supply and the impact this could have on foreign policies but also from the effect on their domestic economies of the high cost of oil imports. Individual consumer states faced with balance of trade deficits and having difficulties in financing them, could attempt to equilibrate their trade balances through "beggar-thy-neighbor" actions.

For example, deliberate measures could be taken to interfere with markets so as to increase exports and/or decrease imports from non-oil exporting countries. Specific examples would include export subsidies, import tariffs, quotas, and perhaps other non-tariff barriers to trade. Such action would, of course, be infeasible as a concerted policy by all deficit nations and therefore irrational. Indeed, should all embark on such a course, a severe economic loss would result through income reductions to all. Exports would be reduced for all oil importing countries with loss in economic activity.

A slowdown in economic growth and consequent unemployment resulting from such a course could have economic and social effects that could have serious political implications for our own security.

These potential problems could arise from the continued high levels of oil imports in conjunction with the price of

oil, which generate large current account surpluses for OPEC. Given the limited absorptive capacity of some of these countries the increased oil revenues to these countries will not be immediately translated into increased imports. A recent estimate of the OPEC 1974 current account imbalance is about $60 billion. In contrast, the 1973 OPEC current account balance was only $13 billion. Projections of these balances through time indicate continued reserve accumulations at least until 1980, as some OPEC members will only gradually adjust their import levels to higher export revenues. An estimate of these accumulations as of 1980 is on the order of $200 to 300 billion (in terms of 1974 purchasing power) for OPEC as a group. Such a massive transfer of wealth would enhance the economic and political power of oil rich states which do not necessarily share our foreign policy objectives.

It is our expectation that these funds will be held and invested in a responsible manner. There is every economic incentive for the owners of these resources to take this course. The United States' basic economic position strongly favors maximum freedom for capital movements and we believe there is no reason to change this policy.

However, in view of the possible problems noted above, it is imperative that we join with our Allies in a concerted program of conservation, reduced reliance on imported sources of oil and development of alternative energy supplies. In this way we promote market forces that will work against further rises in already monopolistic oil prices, and exert some downward pressure on world oil prices.

The Department of Defense confirms these conclusions:

> "The appropriate restriction of oil imports will also impact favorably on the balance of payments and, more importantly, will permit the United States to make a significant contribution to international efforts to reduce total world oil demand which, through its recent rapid growth, has contributed to harmful increases in world oil prices. Those increases have posed serious threats to the economic and military viability of NATO and other friendly nations, as well as to the United States. Reduced dependence on imported oil can also minimize the adverse impact on the United States, NATO and other friendly nations of boycotts such as that imposed by the Arab nations in 1973."

The Federal Energy Administration has pointed out that reduction of reliance on imported oil and conservation are essential to U. S. participation in the International Energy Program. Administrator Zarb states:

> "Given the inability to create effective emergency supplies in the short run, it is important that the U. S. actively support and participate in international security agreements such as the International Energy Program (IEP), or a producer-consumer conference, with the objective of establishing future world oil prices acceptable to the U. S., the other importers, and the OPEC countries; and to decrease the likelihood of politically or economically motivated supply disruptions.
>
> "The IEP particularly is an important component of the U. S. energy supply security program. It would coordinate the responses of most major oil importing nations to international supply disruptions, provide guidelines for conservation and stockpile release programs, and avoid competition for available supplies, and thus limit the oil price increases likely to result from an oil shortage.
>
> "The IEP deters the imposition of oil export embargoes because it diminishes the ability of oil exporters to target oil shortfalls on particular oil importers, or greatly increases the cost of doing so. For example, under an IEP, a U. S. import shortfall of 3 MM B/D would require a much larger export cutoff, and increase the political and economic costs exporters would incur in imposing an embargo.
>
> "These measures do not exhaust the options available to the U. S. Government. They seem to us, however, to be among the most effective programs which the U. S. can implement at this time, given the character of the international energy market. As such, these options offer attractive prospects for minimizing the threat to our national security resulting from our need to continue to rely on imported oil."

VIII. FINDINGS AND RECOMMENDATIONS

As a result of my investigation, I recommend that the following determinations and recommendations be made by the Secretary of the Treasury and forwarded to the President:

FINDINGS

As a result of the investigation initiated by me, I have found that crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar are being imported into the United States in such quantities as to threaten to impair the national security. I further find that the foregoing products are being imported into the United States under such circumstances as to threaten to impair the national security.

RECOMMENDATIONS

I therefore recommend that appropriate action be taken to reduce imports of crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar into the United States, to promote a lessened reliance upon such products, to reduce the payments outflow and to create incentives for the use of alternative sources of energy to such imports. I understand that a Presidential Proclamation pursuant to Section 232 of the Trade Expansion Act of 1962 is being drafted by the Federal Energy Administration consistent with these recommendations.

David R. Macdonald
Assistant Secretary
(Enforcement, Operations,
and Tariff Affairs)

FOOTNOTES

Section III.

1/ Treasury sources, Office of Energy Policy.

2/ Treasury sources, Office of Energy Policy.

3/ Treasury estimate, Office of Energy Policy.

4/ Statement of Donald S. MacDonald, Minister of Energy, Mines and Resources, on Canadian Oil Supply and Demand. Press Release November 22, 1974.

Section IV.

1/ Federal Energy Administration, Project Independence Report, Appendix at 284 (November 1974).

2/ Ibid. at 285.

3/ Ibid. at 289.

4/ Ibid. at 291.

5/ Ibid. at 296.

6/ Federal Energy Administration, Office of Economic Impact, The Potential Economic Costs of Future Disruptions of Crude Oil Imports, at 11 (December 23, 1974).

7/ Ibid. at 3.

Section V.

1/ Federal Power Commission, Staff Report, Requirements and Curtailments of Major Interstate Pipeline Companies Based on Form 16 Report (November 15, 1974).

2/ Report of a subcommittee of the House Committee on Banking and Currency on Oil Imports and Energy Security: An Analysis of the Current Situation and Future Prospects; 93rd Cong., 2d Sess. at 28 (September 1974).

3/ Federal Energy Administration, Project Independence Report, at 30 (November 1974).

Section VI.

1/ Federal Energy Administration, Project Independence Report at 5 (November 1974). See figures set forth in Annex F.

2/ See discussion of alternative energy sources in Section V. See also Federal Energy Administration, Project Independence Report at 6 (November 1974).

ANNEX A

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

JAN 4 1975

MEMORANDUM FOR ASSISTANT SECRETARY MACDONALD

SUBJECT: Request for Section 232 Investigation

Pursuant to my authority under Section 232 of the Trade Expansion Act, 76 Stat. 877 (19 U.S.C. 1862), I am requesting you to conduct an investigation under that section to determine the effects on the national security of imports of petroleum and petroleum products.

In my judgment, national security interests require that the procedures requiring public notice and opportunity for public comment or hearings, set forth in the Treasury regulations at 31 CFR Part 9, not be followed in this case. I further find that it would be inappropriate to hold public hearings, or otherwise afford interested parties an opportunity to present information and advice relevant to the investigation as provided by Section 232, as amended by the Trade Act of 1974. Therefore, I request that you proceed immediately with the investigation without doing so.

William E. Simon

ANNEX B

THE SECRETARY OF STATE

WASHINGTON

January 11, 1975

Dear Bill:

I am responding to your January 3 memorandum and that of David Macdonald requesting the view of the State Department as to the effect of petroleum imports on our national security.

The 1973-1974 oil embargo and production cutbacks demonstrated our vulnerability and that of other industrial nations to an interruption in foreign oil supplies. In addition to its direct economic cost in lost GNP and increased unemployment, the embargo stimulated massive and abrupt price increases which the producers have been able to maintain and increase. Without preventative action, OPEC's accumulation of financial assets will accelerate, reaching a total of about $400 billion in investable funds by the end of 1980. This massive transfer of wealth will greatly enhance the economic and political power of the oil rich states who do not share our foreign policy objectives. It will also cause a serious erosion of the political power of the United States and its allies relative to the Soviet Union and China.

Clearly, decisive action is essential. We have signalled our intention to move toward energy self-sufficiency. We must now demonstrate with action the strength of our commitment. In the short-term, our only viable economic policy option is an effective program of energy conservation. A vigorous United States lead on conservation will encourage similar

The Honorable
William E. Simon,
Secretary of the Treasury.

action by other consuming nations. Consumer cooperation on conservation now and the development of new supplies over time will deter producer aggressiveness by demonstrating that consumers are capable of acting together to defend their interests.

From the national perspective, a major United States' conservation effort will:

-- reduce OPEC's financial claims on United States resources and the transfer of economic and political power to the producers;

-- reduce our vulnerability to supply disruptions;

-- limit the effect of future OPEC price rises on United States growth and inflation; and

-- exert some downward pressure on world oil prices.

We believe substantially higher import license fees will contribute to our conservation strategy. They should reduce our dependence on imported energy and demonstrate to other consumers and producers the seriousness of our commitment not to remain vulnerable to escalating oil prices and threats of supply interruptions.

Warm regards,

Henry A. Kissinger

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

9 JAN 1975

INSTALLATIONS AND LOGISTICS

MEMORANDUM FOR The Assistant Secretary of the Treasury
(Enforcement, Operations, and Tariff Affairs)

SUBJECT: Section 232 Investigation on Petroleum Imports

Reference is made to your memorandum of 4 January 1975 in which you advised that the Department of the Treasury is conducting an investigation under Section 232, 76 Stat. 877 (19 U.S.C. 1862), to determine the effects on the national security of imports of petroleum and petroleum products. Department of Defense views on the security implications of current and projected oil import levels were solicited.

The Department of Defense holds that this nation must have the capability to meet the essential energy requirements of its military forces and of its civil economy from secure sources not subject to military, economic or political interdiction. While it may be that complete national energy self-sufficiency is unnecessary, the degree of our sufficiency must be such that any potential supply denial will be sustainable for an extended period without degradation of military readiness or operations, and without significant impact on industrial output or the welfare of the populace. This is true because the national security is threatened when: (1) the national economy is depressed; (2) we are obliged to rely on non-secure sources for essential quantities of fuel; (3) costs for essential fuels are unduly high; and (4) we reach a point where secure available internal fuel resources are exhausted.

As you know, the Mandatory Oil Import Program was established in 1959 for the express purpose of controlling the quantity of imported oil which at that time had been found to threaten to impair the national security. In the intervening years we have observed with growing concern the decline in domestic and western hemisphere petroleum productive capacity in relation to demand. The result has been a rapid expansion in our dependence on eastern hemisphere sources for the oil which is so essential to our military needs and the nation's economy. By 1973 that dependence had reached a level which risked substantial harm to the national economy in event of a peacetime supply denial. In event of

general war, those risks would be substantially greater because of the sharply increased level of military petroleum consumption which would require support from domestic petroleum resources. The 1973 Arab oil embargo offered proof, if proof were needed, of the deterioration in our national energy situation.

Energy conservation efforts and expanded use of alternate fuels halted the growth in crude oil and product imports during much of 1974. However, production of both oil and gas in the United States continues to decline, and indications are that import growth has resumed. Projections for 1975 indicate that imports may exceed seven million barrels a day, sharply higher than in 1974 and equal to near 19 percent of the probable total energy supply in 1975. To the extent that demand for petroleum imports causes increasing reliance on insecure sources of fuel, then such demand/reliance is a severe threat to our security. Given the gradual reduction in the quantity of petroleum available from relatively secure Western hemisphere sources, relative dependence on insecure sources in the eastern hemisphere will grow more rapidly than the overall growth in oil imports.

The exhaustion of our available internal fuel resources would pose an even greater threat to our security. Therefore, our petroleum policy should properly balance these opposing needs. That is to say, national security considerations would seem to require a proper balance of import restrictions with a decrease in demand. We recognize that the nation faces a period of several years during which dependence on insecure imported oil will exceed levels which we would consider acceptable from a national security viewpoint. Accordingly, we believe that every reasonable effort should be made to inhibit demand growth, and increase total internal energy supply while keeping the quantity of imports at the lowest level commensurate with the essential needs of national security and the civil economy.

The proper control of petroleum imports at minimum essential levels will provide assurance to those engaged in the development of conventional and non-conventional domestic energy resources that foreign oil, regardless of its availability and potential price competitiveness, will not be allowed to deny future markets to secure domestic energy supplies. The appropriate restriction of oil imports will also impact favorably on the balance of payments and, more importantly, will permit the United States to make a significant contribution to international efforts to reduce total world oil demand which, through its recent rapid growth, has contributed to harmful increases in world oil prices. Those increases have posed serious threats to the economic and military viability of NATO and other friendly nations, as well as to the United States. Reduced dependence on imported oil can

also minimize the adverse impact on the United States, NATO and other friendly nations of boycotts such as that imposed by the Arab nations in 1973.

It is our conclusion that current and projected levels of demand and need for imported petroleum products and crude oil pose substantial risks to the national security of the United States. Additional growth in the need to import will result in further dependence on eastern hemisphere sources from which oil must move over long and vulnerable sea lanes. Moreover, it will depend predominantly on nations which have demonstrated the will and ability to employ their oil resources for political purposes. Further, the rapid growth in U.S. oil imports since 1970 has had, and will continue to have if it persists, a major role in creating and maintaining the conditions which led to the oil price rises of 1973 and 1974, and impaired the ability of our NATO allies to obtain their minimal oil needs in periods of supply disruption. Future growth will exacerbate those conditions. Increasing dependence on imported oil is inimical to the interests of the United States and should be subject to such controls as may be needed to insure that oil imports are properly balanced against our essential needs and reflect our development of additional energy resources.

Attached for your information are estimates of military petroleum requirements.

A. I. Mendolia

ARTHUR I. MENDOLIA
Assistant Secretary of Defense
(Installations & Logistics)

Attachment

MILITARY PETROLEUM REQUIREMENTS

Estimated consumption, U.S. forces, FY 1975 - 558,000 barrels per day 1/

Estimated consumption in general war - 1,800,000 barrels per day

In addition to purely military requirements there is a substantial additional need for direct and indirect use of petroleum by defense-related private industry. No data is available on the amount of petroleum involved, but broad estimates of total energy consumption by defense industry indicate that from 1.5 to 3.0 percent of total national energy consumption is currently required. That percentage would increase substantially in a protracted general war, probably largely due to conversion of industry to war production, without necessarily reflecting sharply increased energy requirements on a btu basis.

1/ Currently approximately 35% of consumption is obtained from foreign sources. No significant changes in consumption are projected through FY 1976.

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

In Reply Refer To:
EBM:AD/MMSDA-MS-DFF

JAN 8 - 1975

Honorable David R. Macdonald
Assistant Secretary
Enforcement, Operations and Tariff Affairs
Department of the Treasury
Washington, D.C. 20220

Dear Mr. Macdonald:

In response to your memorandum of January 4, 1975, relating to the request for investigation on petroleum imports under Section 232 of the Trade Expansion Act, we have enclosed some observations concerning the effects on the national security of imports of petroleum and petroleum products.

Sincerely yours,

Jack W Carlson

Assistant Secretary of the Interior

Enclosure

THE EFFECTS ON NATIONAL SECURITY ON IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS

Imports of crude oil in the first nine months of 1974 averaged 3.3 million barrels per day, and imports of petroleum products and unfinished oils in petroleum averaged 2.6 million barrels per day. Total imports as a percent of supply accounted for 36 percent and demand for petroleum products in the same period averaged nearly 16.5 million barrels per day. In the first nine months of 1974, residual fuel oil accounted for 60.2 percent of our product imports and 61.3 percent of domestic residual fuel oil demand; distillate fuel oil, 9.3 percent of imports, and 8.6 percent of demand. Imports of gasoline constituted 8.4 percent of products, but only 3.4 percent of domestic demand; jet fuel, 6.3 percent of imports and 16.7 percent of demand. Imports of liquefied gases and ethane comprised 4.6 percent of products and 9 percent of demand. Other products, which includes naphthas, kerosine, lubricants, waxes, asphalt, etc., aggregated 11.2 percent of product imports and 13.7 percent of domestic demand.

If crude oil imports were cut off, refining operations in the U.S. would have to be curtailed sharply. Based on average refinery yields (August 1974), domestic refineries obtained from the 3.3 million barrels a day of crude oil imported, nearly 1.6 million barrels a day of gasoline, nearly 700 thousand barrels a day of distillate fuel oil, and 274 thousand barrels a day of residual fuel oil.

Viewed narrowly, namely in terms of the probable needs of the Department of the Defense under present conditions or in a major nuclear war, it would appear that petroleum importations at current levels would not jeopardize national defense per se. However, a cut off of foreign supplies of crude petroleum and/or petroleum products would have a serious impact on the national economy, such as was demonstrated in the 1973-74 Arab Oil Embargo. Broadly viewed, a disruption of imports could have serious implications for the national security, as well, in that a strong and healthy economy is generally considered essential to our overall ability to maintain our free democratic institutions.

Still another consideration is the adverse impact petroleum products imports have on expansion of domestic refinery capacity. We cannot now meet our normal domestic needs from the full output of existing refinery capacity. An increase in imports of products would be harmful to national security because increasing dependence on such sources would not only make the United States more vulnerable to disruptions in supply flows, but also inhibit domestic refinery expansion.

Even without a further embargo, large imports pose an economic threat. The accompanying chart includes a 1974 estimated value of products and crude oil imports totaling $23.5 billion. Furthermore, in view of recent OPEC announcements, expenditures for petroleum imports could be even greater in 1975, and subsequent years. Therefore, this capital drain could have serious repercussions on the U.S. economy, and endanger the national security thereby. Moreover, large capital exports to nations not necessarily friendly to the objectives of the United States increases the potential for harm to ourselves or to our allies, and thus increases the threat to our security.

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

JAN 1 0 1975

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

SUBJECT: Section 232 Investigation of Petroleum Imports

This is in response to your memorandum of January 4, 1975, concerning the investigation of oil imports being initiated under Section 232 of the Trade Expansion Act of 1962, as amended. Specifically, your memorandum forwarded the request of Assistant Secretary of the Treasury Macdonald for (a) any information this Department has bearing on the effects on the national security of imports of petroleum and petroleum products, and (b) advice as to whether petroleum and petroleum products are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

Based on prior analyses and a brief review during the past five days, it is my opinion that there is no question that imports of petroleum at current volumes and circumstances, including the current level of OPEC prices, threaten to impair the national security. Under these circumstances, we recognize the threat posed by oil imports to the ability of the United States to produce goods and services essential for ensuring our national security preparedness. We recognize the additional threat posed by the possibility of an extended embargo of oil imports. Section 232 of the Trade Expansion Act, the basis for the present investigation, in fact requires that recognition be given to "the close relation of the economic welfare of the Nation to our national security."

As you know, the quota system of the Mandatory Oil Import Program, based on national security findings, was in effect from 1959 to early 1973. Its objective was to restrict imports of petroleum and petroleum products to 12.2 percent of domestic production in Districts I-IV (the Eastern 80 percent of the continental U.S.) and to no more than the

difference between demand and domestic supply in District V (the West Coast). At that time, foreign oil was priced well below domestic oil and restrictions on imports were judged necessary to preserve a viable domestic crude oil producing industry. However, in recent years domestic consumption has increased much faster than production, and it has not been feasible to maintain the old formula. In early 1973, import quotas were replaced by the license fee program, and imports of crude petroleum and products by the end of 1974 reached a figure which amounted to slightly more than 35 percent of consumption. I am enclosing a publication from the Bureau of the Census in which import quantities for 1973 and 11 months of 1974 are given.

The experience of the Arab oil embargo last year, even though it halted only about one-half of our oil imports, confirms the risk of disruption to the economy which is implicit in dependence on imports of oil to this degree. The oil embargo is believed to have produced a reduction in U.S. GNP by some $10 to $20 billion. All sectors of the economy were adversely affected, with the consumer durables sector and housing construction most heavily hit. Further, it is estimated that a substantial part of the inflationary rise of prices during 1974, particularly in the first half, is attributable to the direct and indirect effects of the rise in overall energy costs which followed the rapid escalation of costs for Arab oil. In view of this record of injury caused by loss of foreign oil supply and our continuing vulnerability to future injury of even greater impact, it is my opinion that imports at current and projected levels do constitute a threat to impair the national security.

In summary, I perceive the threat as being based on two factors: the possibility of an extended embargo and the inflationary impact of higher prices and volumes. We certainly want to ensure, should a positive finding be determined, that any recommended course of action would address these factors. If I can be of any further assistance in your deliberations, please let me know.

Frank B. Dent

Secretary of Commerce

Enclosure

U.S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

JAN 9 1975

MEMORANDUM TO DAVID R. MACDONALD, ASSISTANT SECRETARY
(ENFORCEMENT, OPERATIONS, AND TARIFF AFFAIRS)

SUBJECT: Section 232 Investigation on Petroleum Imports

REFERENCES: Memorandum, January 4, 1975, above subject from Secretary of the Treasury, William E. Simon.

Memorandum, January 6, 1975, above subject, Assistant Secretary of the Treasury, David R. MacDonald.

The Department of Labor currently has no information available directly relating to whether petroleum or petroleum products are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

Data usually provided by the Department of Labor for Section 232 investigations could not be collected and made available within the time required by Mr. Simon's memorandum of January 4. If you wish us to proceed with the fully detailed Department of Labor portion of a Section 232 investigation, we would be pleased to consult with you on the matter.

As noted in the memorandum of January 4, some work has been done in the Department concerning the current effects of imports of petroleum and petroleum products, albeit not in relationship directly to national security. This work includes:

1. The Secretary of Labor's Report on the Impact of Energy Shortages on Manpower Needs, dated March 1974. This report, required under Section 506 of the Comprehensive Employment and Training Act of 1973, deals with the impact of energy shortages on current and future employment. A copy is enclosed.

2. Labor Report, a part of the Project Independence Blueprint Task Force Report, dated November 1974. This report is available from the Federal Energy Administration.

3. "The Effects of Oil Resource Allocation", an unpublished study recently completed by Professor Yoram Barzel of the University of Washington under contract to the Department of Labor. The study is currently being reviewed within the Department. If it appears that this study contains material relevant to the effect of petroleum and petroleum products imports on national security we will advise you.

JOEL SEGALL
Deputy Under Secretary
International Affairs

Enclosure

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 8, 1975

Dear Mr. Macdonald:

Petroleum and petroleum products are being imported into the United States in such quantities and under such circumstances as to threaten to impair the national security.

The quantity of imports of petroleum and petroleum products is so large that these imports are essential to the continued functioning of our economy at acceptable levels of employment and output. Unless appropriate action is taken, petroleum and petroleum product imports would continue at current or higher levels, leaving the economy open to serious damage if those imports were interrupted.

The circumstances under which petroleum and petroleum products are being imported into the United States lead to a threat to national security. Foreign governments may interrupt the flow of petroleum and petroleum product imports to the United States to achieve economic or political ends. Oil-exporting nations whose exports are now essential to the continued security of the United States have agreed to act jointly in matters of oil exports. Collective action by some petroleum exporters reduced U.S. petroleum imports during 1973-1974 with serious damage to the economy and security of the United States. A threat to our national security will exist until the United States can absorb the effects of an embargo without damage to its vital economic and military interests.

The United States can absorb the effects of an embargo without serious damage only if imports from those countries which act jointly on petroleum matters are not essential to the United States. These imports would not be essential if the economy of the United States required only as much petroleum and petroleum products, or their substitutes, as could be produced within our borders or imported from nations dwhich did not belong to the group which acted jointly on petroleum matters. Consequently, actions which cause the economy to adjust to the consumption of less energy in the form of petroleum and petroleum products, and/or which cause more

petroleum products to be supplied by domestic sources, would lead to greater national security.

Alternatively, imports from those nations which act jointly on petroleum matters would not threaten the security of the United States if alternative sources of petroleum and petroleum product supply could easily and readily replace interrupted imports. At present such supplies do not exist, and consequently there is a threat to the national security of the United States.

In summary, petroleum and petroleum products are now being imported in quantities such that serious damage to national security would result from interruption of these imports. The circumstances under which petroleum and petroleum products are being imported makes those imports insecure. Consequently, petroleum and petroleum product imports threaten the national security.

Sincerely,

Alan Greenspan

Honorable David R. Macdonald
Assistant Secretary (Enforcement, Operations,
and Tariff Affairs
Department of the Treasury
Washington, D.C. 20220

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

JAN 11 1975

David R. Macdonald
Assistant Secretary
Enforcement, Operations, and
Tariff Affairs
U.S. Department of the Treasury
Washington, D. C. 20220

Dear Mr. Macdonald:

This is in response to your memorandum of January 4, 1975, concerning Treasury Department Section 232 Investigation on Petroleum Imports.

The Project Independence Report projected continued U.S. reliance on imported oil through 1980, given projected U.S. domestic supply/demand responses to world oil prices of $4-$11 per barrel.

It is our judgment that, whatever its source, imported oil is inherently less secure than domestic oil. Oil import shortfalls jeopardize the national security of the U.S. and other oil dependent nations because they impose severe economic costs. For that reason, the costs of offsetting that insecurity ought to be reflected explicitly in the domestic price of imported oil.

The future supply security of U.S. imports was a major focal point in the Project Independence Report. The International Assessment of that report assessed U.S. vulnerability to foreign political and economic coercion resulting from disruptions in the supply of imported crude. It should be noted, moreover, that a significant disruption in imports of certain finished products, such as residual fuel oil could have major economic security implications for the country. For example, approximately 80 percent of residual fuel oil consumed in the U.S. is imported and most of it is consumed on the East Coast for the production of electricity and for industrial use. At the present time, very few of these users have the capability of converting to other fuels in the event of a temporary supply disruption lasting several months or longer.

The report evaluates a number of alternatives for offsetting the costs of oil import interruptions. The criteria for evaluating these options included their relative contribution to U.S. energy import supply security, their costs, and their impact on world oil prices. The most prominent options are: 1) Regulation of energy consumption during an oil import shortfall; 2) Alternative domestic emergency energy supplies; 3) International oil sharing. Each of these is discussed in greater detail below.

1. Regulation of energy consumption:

As was demonstrated during the 1973-74 embargo, government regulation of domestic fuel supplies can diminish the economic impact of an oil import embargo. FEA has estimated that an oil shortfall of approximately 1 million barrels/day can be managed by fuel allocation programs, without imposing prohibitive costs on the economy. In the short-term, 1975-76, this option is likely to remain effective. In the longer term, more efficient energy utilization will diminish the extent to which oil import shortfalls can be managed exclusively by relying on minimal cost fuel allocation programs.

2. Alternative emergency energy supplies:

In the short-term, 1975-76, emergency energy supply availability is limited to current inventories, domestic and international stocks, and any available production capacity of exporting states not participating in the embargo.

In the longer term, strategic petroleum reserves could be developed. For example, our assessment of current oil import security indicates the desirability of 1 billion barrels of crude oil, stored in U.S. salt-dome caverns as they become available. The amount could be adjusted as the threat assessment changes. Such a stockpile could offset a 3 MM barrel/day import cut for nearly one year. Given domestic conservation programs and alternate supply sources, however, the stockpile would most likely last longer than one year.

It will take several years to build strategic reserves to the desired level. In the meantime, the U.S. must consider ways to dampen the rate of increase in oil imports. We feel that, even at current world oil prices,

the cost of using imported oil, i.e., the expected economic loss caused by an import shortfall, and/or the costs of emergency supply programs to diminish that loss, is currently not internalized by the U.S. economy. To this end, FEA feels a "security fee" on imported oil would be effective. This fee ($1 to $3 per barrel) could be used in part to finance the strategic reserve programs, and to encourage development of domestic energy resources.

3. International energy agreements:

Given the inability to create effective emergency supplies in the short run, it is important that the U.S. actively support and participate in international security agreements such as the International Energy Program (IEP), or a producer-consumer conference, with the objective of establishing future world oil prices acceptable to the U.S., the other importers, and the OPEC countries; and to decrease the likelihood of politically or economically motivated supply disruptions.

The IEP particularly is an important component of the U.S. energy supply security program. It would coordinate the responses of most major oil importing nations to international supply disruptions, provide guidelines for conservation and stockpile release programs, and avoid competition for available supplies, and thus limit the oil price increases likely to result from an oil shortage.

The IEP deters the imposition of oil export embargoes because it diminishes the ability of oil exporters to target oil shortfalls on particular oil importers, or greatly increases the cost of doing so. For example, under an IEP, a U.S. import shortfall of 3 MM B/D would require a much larger export cutoff, and increase the political and economic costs exporters would incur in imposing an embargo.

These measures do not exhaust the options available to the U.S. Government. They seem to us, however, to be among the most effective programs which the U.S. can implement at this time, given the character of the international energy market. As such, these options offer attractive prospects for minimizing the threat to our national security resulting from our need to continue to rely on imported oil.

We have enclosed a copy of the International Assessment chapter from the Project Independence Report together with a copy of the PIMS "U.S.-OPEC Petroleum Report," which provides OPEC export volume and pricing data for 1973 by individual member countries. The 1974 report has not yet been compiled.

We trust that this information will be helpful in the conduct of your investigation.

Sincerely,

Frank G. Zarb
Administrator

Attachments
a/s

cc: William E. Simon
Secretary of the Treasury

ANNEX C

CRUDE PETROLEUM AND PETROLEUM PRODUCTS [1/]

1974 Data in 1,000 bbl/day

Month	Domestic Production	Crude Imports	Product Imports	Total Imports	Domestic Demand
January	8,907	2,382	2,973	5,455	17,270
February	9,156	2,248	2,973	5,271	17,371
March	8,950	2,462	2,753	5,215	16,045
April	8,952	3,267	2,703	5,970	15,919
May	8,903	3,748	2,454	6,202	15,624
June	8,777	3,957	2,218	6,175	16,459
July	8,393	4,167	2,143	6,310	16,156
August	8,918	3,905	2,286	6,190	16,332
Eight Month Average	8,932	3,267	2,563	5,830	16,397

Imports as percent of demand - 35.6%

LATEST DATA [2/]

Four Weeks (Ending Dec. 13)	8,661	4,047	3,360	7,407	18,772

Imports as percent of demand - 39.5%

1/ FEA, Monthly Energy Review - Oct. 1974

2/ FEA, Petroleum Situation Report - Dec. 13, 1974

ANNEX D

U.S. IMPORTS OF CRUDE OIL
AND PETROLEUM PRODUCTS BY SOURCE
JANUARY THRU OCTOBER 1974
IN 1000 BBLS/DAY

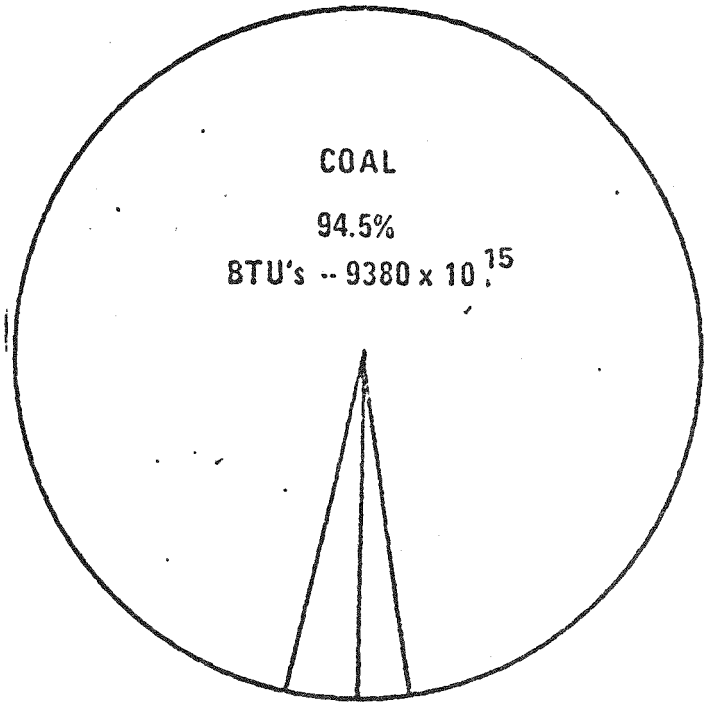
Country	Total
Algeria	220
Egypt	14
Kuwait	2
Qatar	16
Saudi Arabia	382
United Arab Emirates	82
Major Arab OPEC Countries	716
Ecuador	71
Indonesia	296
Iran	542
Nigeria	670
Venezuela	1,131
Gabon	33
Major OPEC Countries	3,459
Canada	1,015
Netherland Antilles	494
Angola	50
Italy	100
Netherlands	52
Mexico	10
Bahamas	213
Trinidad	272
Others	178
Grand Total	5,843

Source: Federal Energy Administration from Census Bureau FT-135 Report.

THE CRUX OF U.S. PROBLEM

ANNEX E

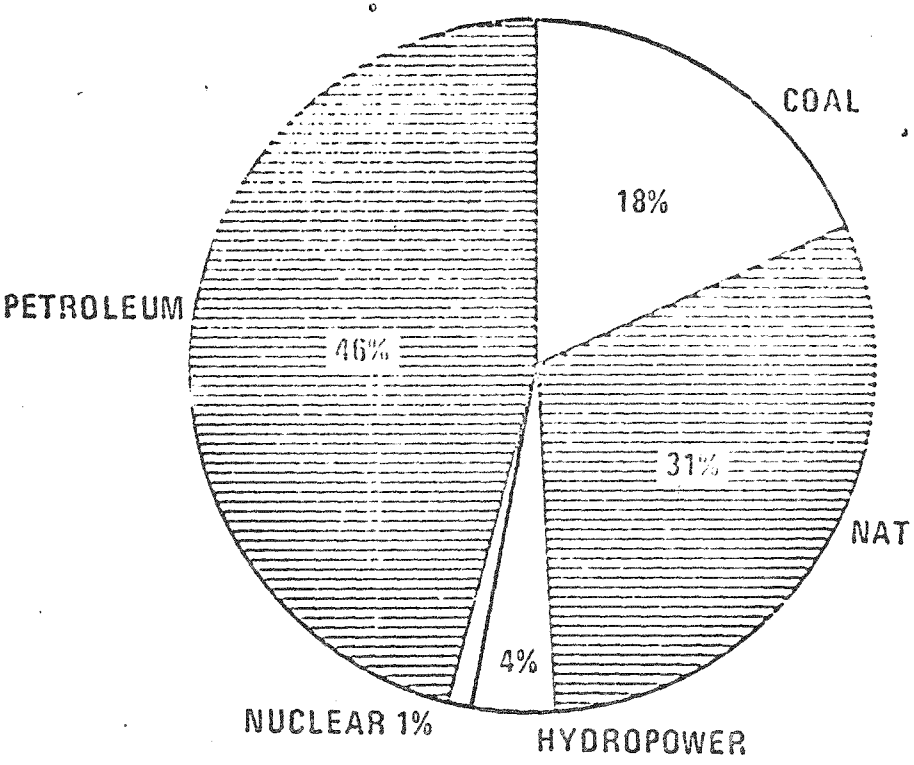
RECOVERABLE U.S. RESERVES



PETROLEUM
2.7%
BTU's -- 270 x 10^{15}

NATURAL GAS
2.7%
BTU's -- 275 x 10^{15}

PRESENT U.S. CONSUMPTION



Source: FEA - Project Independence P-13

ANNEX F

U.S. Crude Oil Daily Averages in 1,000 bbls per day Production

Date	Quantity*
1964	7,614
1965	7,804
1966	8,295
1967	8,810
1968	9,095
1969	9,238
1970	9,637
1971	9,462
1972	9,441
1973	9,187
4 weeks ending Dec. 13	8,661**

Sources: *API Annual Statistical Review (BuMines) Sept. 1974, page 13.
**FEA Petroleum Situation Report Dec. 13, 1974.

GPO 886-136