The original documents are located in Box 8, folder "Energy - Oil Decontrol (2)" of the Loen and Leppert Files at the Gerald R. Ford Presidential Library.

FOR IMMEDIATE RELEASE July 25, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S COMPROMISE OIL DECONTROL PLAN

THE PRESIDENT'S ANNOUNCEMENT

The President today announced a new compromise plan to gradually decontrol the price of old oil (oil now under federal price controls) over a 39-month period. In addition, the President announced for the same period a ceiling on the price of all uncontrolled domestic oil (other than from wells which produce less than 10 barrels per day which are currently exempted from controls) of approximately $11.50, increasing at $.05 per month beginning October 1, 1975.

The President also called for enactment of energy taxes including a windfall profits tax (with appropriate plowback provisions) and a 3 month extension of the Emergency Petroleum Allocation Act to implement the decontrol plan. The energy taxes collected would be rebated to each energy consumer. These actions will result in substantial energy savings, provide an incentive for expanding domestic production, and ultimately remove a complex and counter-productive set of regulations.

Under the President's plan, imports will be reduced and prices will increase gradually. Phased decontrol will thus not impede economic recovery.

BACKGROUND

- The price of old oil is currently controlled at an average of about $5.25 per barrel, while the average price of new domestic oil is now uncontrolled and is about $12.50

- Controlled oil currently represents about 60 percent of domestic oil production. New, released, and stripper well oil account for the remainder.

- Domestic oil production has been declining since 1970 (it is down 11% since early 1973) and is now about 8.4 million barrels per day (MMB/D), a decline of more than 500,000 barrels per day from last year (see chart 1).

- Imports are predicted to average about 6.5 million B/D, but are expected to rise to up to 7 MB/D by the end of this year, which is about 40% of domestic consumption.

- Imports are expected to grow to an average of more than 7.5 MMB/D in 1977, if no action is taken to reduce demand or increase supply. The added imports in the next two years are expected to come mainly from Arab nations and could double our vulnerability to an embargo (see chart 2).

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- The Emergency Petroleum Allocation Act of 1973, which requires the control of prices and distribution of oil expires on August 31, 1975.
- None of the measures requested by the President almost six months ago in his State of the Union Address has been enacted by the Congress.
- The President originally proposed in his State of the Union Address immediate and total decontrol in April, 1975. In response to concerns expressed by some Members of Congress, on April 30, 1975, the President directed FEA to hold public hearings on a phased decontrol plan in May.
- The President submitted a 30-month decontrol plan to the Congress on July 14, 1975, which also contained a $13.50 per barrel ceiling on domestic oil. The 30-month plan was disapproved by the House of Representatives on July 22.
- Under provisions of the Emergency Petroleum Allocation Act, either House of Congress has five working days in which to disapprove a decontrol plan by majority vote.

OBJECTIVES OF THE PLAN

The plan announced by the President is designed to meet the following objectives:

- Achieve a major reduction in imports by providing an incentive to increase domestic production and by cutting demand through increased conservation.
- Reduce the power of foreign oil cartels to control the prices Americans pay for energy.
- Provide a compromise decontrol plan acceptable to the Congress.
- Remove over a 39-month period the complex, counter-productive, and administratively burdensome government regulations.
- Eliminate excessive oil company profits and minimize consumer and economic impact by rebating energy taxes.

PRINCIPAL ELEMENTS OF THE PLAN

Today's proposal by the President would gradually remove price controls from all currently controlled oil over a 39-month period beginning September 1 of this year and ending in November, 1978. Under this plan, the amount of oil under controls is decreased by an additional 1.5 percent per month of a decontrol base production level (which is the average monthly production of old oil during April, May, and June of this year) for the first year beginning September 1, 1975, 2.5 percent per month for the second year; and 3.5 percent per month for the remaining 15 months.

The 39-month ceiling on prices for domestic crude oil proposed by the President would be equal to the old oil ceiling price plus $6.25 per barrel, for a total of approximately $11.50 per barrel.

Prices of domestic oil produced from stripper wells -- wells producing less than 10 barrels per day -- are not now controlled nor would they be under the President's proposal.

The President also announced that along with the decontrol plan, he would urge the Congress to enact his proposed energy taxes including a windfall profits tax with appropriate plow-back provisions and to extend the Allocation Act with appropriate modifications to cover this 39-month decontrol period.

The President also called upon the Congress to enact the other critical conservation, domestic supply, and emergency standby measures which were included in his State of the Union proposals of January 15, 1975.

IMPACT OF THE PLAN

- On prices:

  The President's phased decontrol plan will increase the average petroleum product price (such as gasoline) by a cumulative amount of approximately:

End of	
1975 -	-(.5-1.0)¢/gallon
1977 -	2.0¢/gallon
1978 -	5- 6¢/gallon

- On Import Savings:

Average for year	Phased decontrol - alone	Phased decontrol, existing $2 import fee & other proposals by President
1975	20,000	270,000
1977	190,000	1,240,000
1978	515,000	1,770,000

more

- Impact of Compromise on Prices

Timing of Decontrol	Cap	Cummulative Prices Increases, as of 4th Quarter		
		1975	1977	1978
Immediate(1)	None	6-7¢/gal	--	--
30 Month(2)	$13.50	0.5¢/gal	4.5	5.6
39 Months(3)	11.50	-(.5-1.0)/gal(4)	2.0	5.6

(1) Proposed on January 15, 1975

(2) Proposed on July 14, 1975

(3) Proposed on July 25, 1975

(4) Decrease from current price levels

CHART 1

DOMESTIC PRODUCTION OF CRUDE OIL

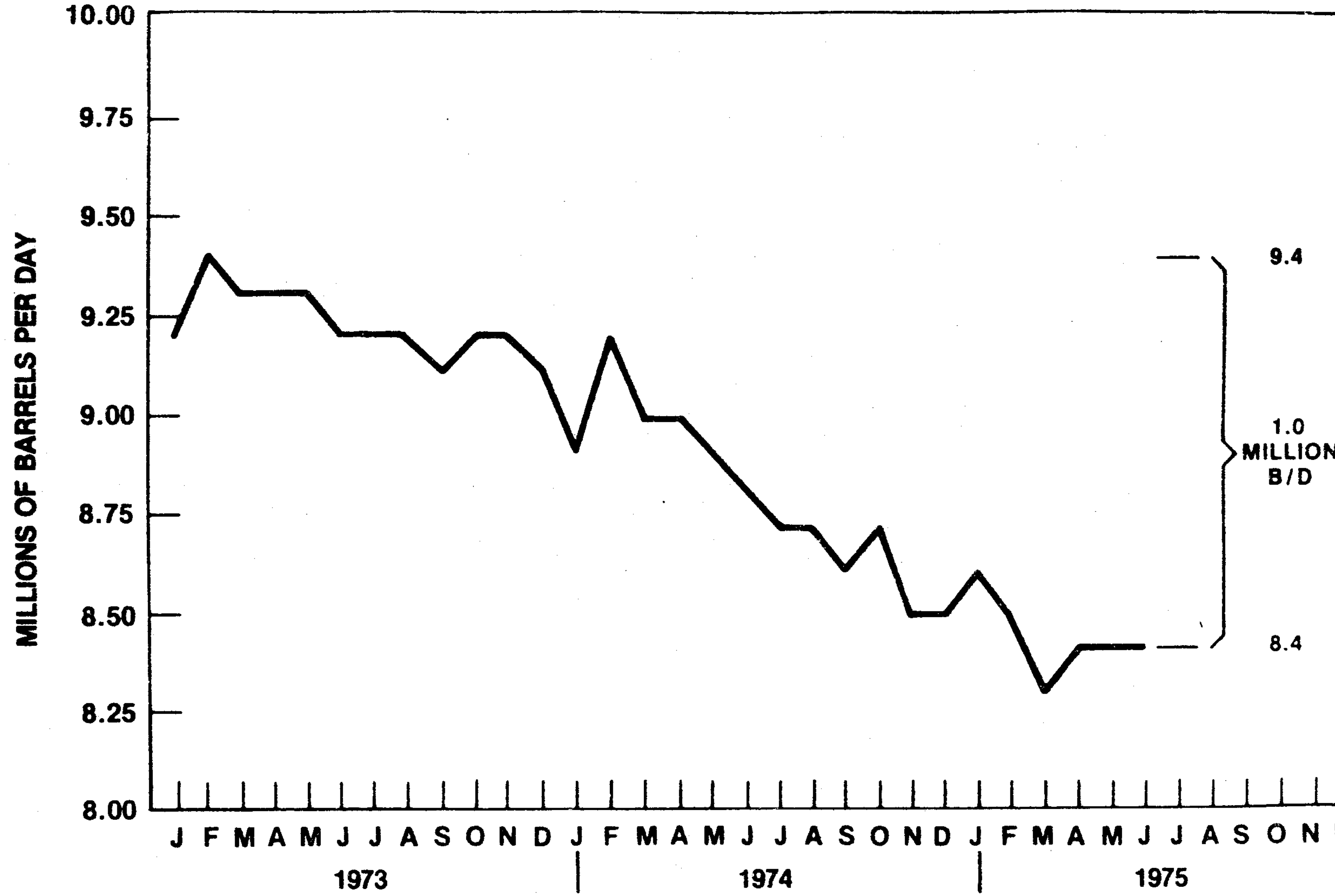
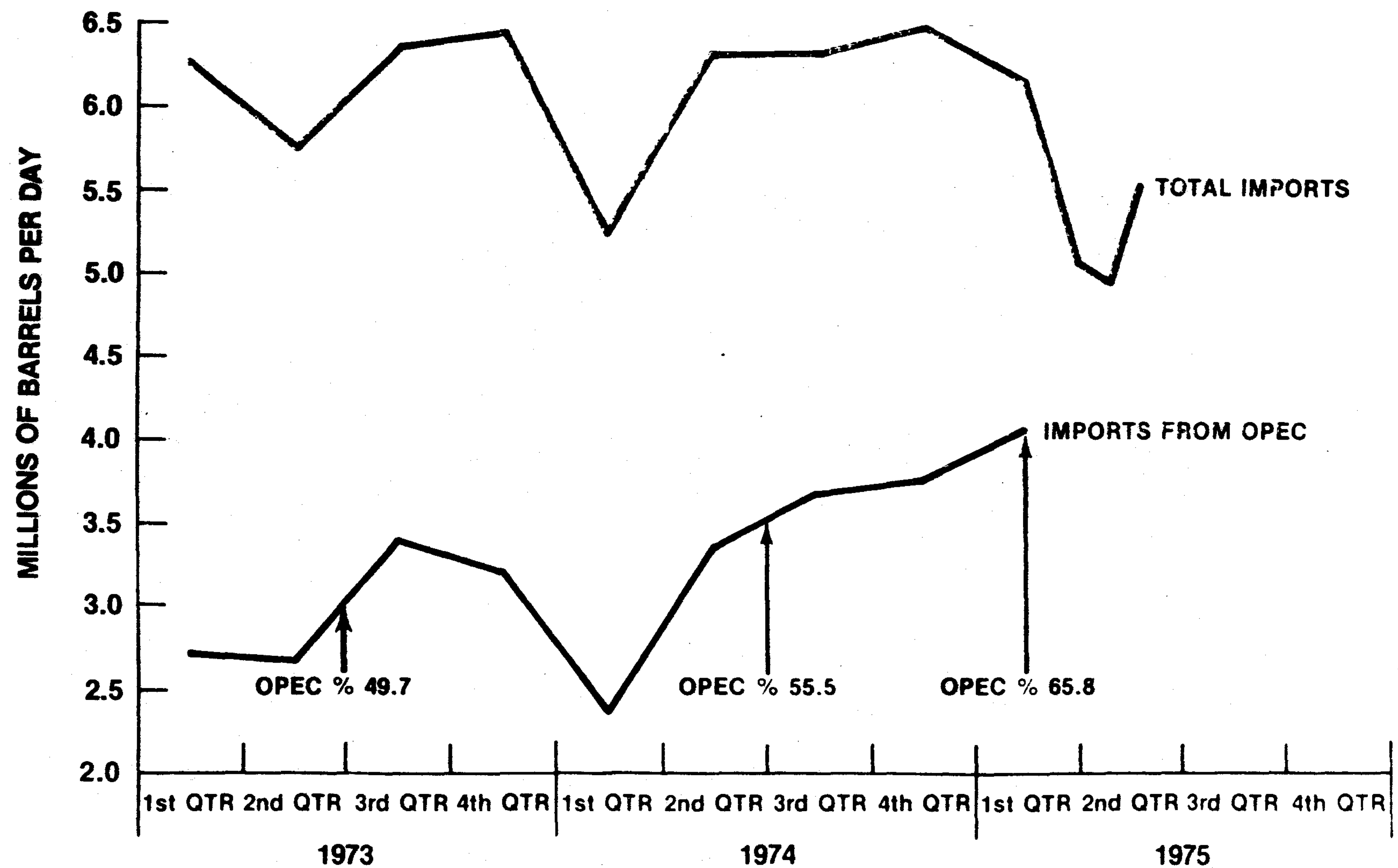


CHART 2

IMPORTS OF CRUDE OIL AND PETROLEUM PRODUCTS



FOR IMMEDIATE RELEASE JULY 25, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT
ON HIS
OIL DECONTROL PLAN

THE BRIEFING ROOM

10:18 A.M. EDT

I have a short statement that will indicate some action that I am going to take later today, and I will read the statement and then Frank Zarb will brief on the details of the proposal.

In the effort to break the deadlock on energy legislation prior to the August Congressional recess, I am prepared to compromise on the critical issue of oil decontrol. I will submit to the Congress later today my second Administrative decontrol program.

This Nation desperately needs cooperation, not confrontation, on the critical energy issue. The new compromise decontrol plan I will propose will answer the legitimate concerns raised by Members of the Congress during the very lengthy discussions which have been held on this problem.

This plan will gradually phase out price controls over a 39-month period through November 30, 1978. As part of the decontrol plan, a price ceiling of $11.50 per barrel will be imposed on all domestically produced oil.

Although this represents a rollback on all current uncontrolled oil prices, the $11.50 ceiling will gradually increase by 5 cents per month over the length of the program.

However, this ceiling will assure that future increases in the price of imported oil will not affect our domestic market prices. This program is a critical first step in reversing our growing dependence on foreign oil.

Combined with a windfall profits tax on oil companies and rebates of energy taxes to the American people, this plan will not hinder our economic recovery, nor raise prices during 1975.

MORE

It will not allow unfair gains or produce undue hardships.

After Congress rejected the 30-month decontrol plan I submitted last week, I was faced with two choices: To either veto the proposed extension of price control scheduled to expire August 31, or seek a compromise with the Congress.

I strongly urge the Congress to accept this program, and simultaneously enact a simple three-month extension of the law.

To achieve energy independence, the Congress and the President must work together on this and other parts of my comprehensive energy program.

I strongly urge the Congress to accept this compromise so that we can get on with the solution of this most pressing problem.

Thank you very much.

END (AT 10:23 A.M. EDT)

FOR IMMEDIATE RELEASE JULY 25, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

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# # #

File
P's Decontrol
Old Oil -7-28-75

TITLE 10 - ENERGY

CHAPTER II - FEDERAL ENERGY ADMINISTRATION

PART 211 - MANDATORY PETROLEUM ALLOCATION REGULATIONS

PART 212 - MANDATORY PETROLEUM PRICE REGULATIONS

Revised Program to Phase-Out Old Oil Price Ceilings

A. Introduction

On July 14, 1975, the Federal Energy Administration adopted an amendment to its regulations to provide for the gradual removal of price controls from domestic crude oil. On July 16, 1975, the amendment was submitted to Congress for its review pursuant to §4(g)(2) of the Emergency Petroleum Allocation Act of 1973, and on July 22, 1975, the House of Representative adopted a resolution disapproving the amendment. Accordingly, pursuant to §4(g)(2) of the Act, the amendment adopted July 14, 1975 shall not take effect.

In light of the foregoing, and upon further consideration of the comments and presentations submitted in the rulemaking proceeding that has been held on the proposal to phase-out old oil price ceilings as well as other information available to FEA, the FEA hereby adopts a revised amendment to its regulations to provide for removal of price controls from domestic crude oil in a manner that is even more gradual than the 30-month decontrol

The reason for continuing price controls on the petroleum industry was, of course, the serious shortage of crude oil and products derived therefrom in late 1973 and early 1974. In response to this emergency situation, the Emergency Petroleum Allocation Act of 1973 was enacted in November, 1973, pursuant to which price controls on the sale of crude oil and derivative products have been retained.

As its name suggests, that Act was chiefly concerned with assuring adequate supplies through regulatory mechanisms by which covered products would be equitably allocated to all regions and to all users throughout the product distribution chain. Price controls were retained to further assure that reduced supplies would not lead to inequitably high prices.

At present, about one-third of total domestic production of crude oil is not subject to the ceiling price of 10 CFR 212.74. This amount represents crude oil which is under the congressionally-mandated stripper well lease exemption and crude oil which is allowed to be priced at market levels under existing production-incentive regulations concerning "new" and "released" crude oil. Taking into account imported crude oil, about 56 percent of all domestically refined crude oil is not subject to price ceilings.

Domestic crude oil subject to price ceilings, defined as "old" crude petroleum, sells at an average of $5.25 a

barrel (or about 12-1/2 cents a gallon), while the average price of uncontrolled domestic crude oil rose from about $11.30 a barrel in January, 1975, prior to the increase in import fees, to a level of about $12.25 (29 cents a gallon) by May of this year.

The Emergency Petroleum Allocation Act of 1973 permits exemptions from allocation and price controls for products subject to the Act to be granted only under certain conditions. An exemption may apply to only one product and may extend for a period of not more than 90 days. Any proposed exemption must be submitted to Congress prior to implementation, together with findings that (1) there is no shortage of the product concerned, (2) the proposed exemption will not have an adverse effect on the supply of any other product, and (3) controls on the product concerned are no longer necessary to carry out the purposes and goals of the Act. Pursuant to §4(g)(2) of the Act, the exemption may not be implemented if disapproved by either house of Congress during the period of five sessional days allowed by the Act for legislative review by each house.

Having received written comments and having held public hearings on its old oil deregulation proposal, the FEA has transmitted this revised final decontrol amendment to the Congress together with the findings set forth below. Under the amendment adopted today, old oil will be gradually decontrolled over a 39-month period, beginning September 1, 1975, and ending on November 30, 1978. The FEA plans to issue a notice stating what congressional action, if any, was taken under §4(g)(2) on this revised amendment.

As explained in the notice of proposed rulemaking issued April 30, 1975, the FEA's "old oil" decontrol program (which implements one phase of the overall energy conservation program put forward by President Ford in his State of the Union Message) would affect only crude oil sales at the producer level. It would not affect the crude oil allocation regulations or the allocation or price regulations for any other product at any level of distribution. The old oil decontrol program would both help curb domestic consumption and spur domestic production, thus furthering the important national goal of reducing dependence on imported crude oil.

Decontrol will ultimately permit all domestic crude oil prices to rise to the current prevailing world price levels, so that the demand-dampening effects which have been felt worldwide would be felt to the full extent in the United States. Under the two-tiered price system now in effect, the price of most domestic oil is held at a level less than half that of current world price levels, so that the impact which the escalation of world market prices has had on demand elsewhere in the world has been considerably cushioned in the United States.

In addition to conserving domestic supplies by reducing demand, decontrol of domestic crude oil prices would stimulate domestic production, or at least greatly reduce the rate of decline in domestic production, displacing some supplies of crude oil that would otherwise have to be imported. Measures to promote maximum domestic production of crude oil -- especially new exploration and drilling activity and implementation of secondary and tertiary recovery techniques -- are considered essential in order to help assure adequate and dependable energy resources for the United States until alternative domestic energy resources can be developed over the long term. Furthermore, the FEA has found that the production incentives afforded by the rules permitting "new" and "released" domestic crude oil to be sold at free market prices are of decreasing impact or effectiveness, as production levels, because of natural rates of decline, are generally falling further below 1972 levels, and 1972 levels of production for a property must be exceeded before the new and released price rules can have any effect.

Thus, many producers, especially those whose current production levels are substantially below the 1972 base levels and are further declining under primary recovery techniques, remain unaffected by the incentives presently afforded because those incentives are too remote to outweigh the cost of implementing the substantial secondary or tertiary recovery programs which would be necessary to bring production up to and above the 1972 base levels. Under the FEA decontrol program, when fully implemented, all production, including additional production, would bring the higher prices now available to uncontrolled oil.

The existing incentives to increase production are, for properties that were producing in 1972, only effective for limited periods of time in any event, since the inevitable slackening of output will eventually bring production below 1972 levels, to the point where existing incentives are no longer adequate to encourage investment in secondary/ tertiary recovery and other costly programs designed to increase total output of crude oil. Although the additional incentive afforded by the gradual decontrol of old oil would also eventually diminish in effect with respect to existing properties, due to the inevitable decline or exhaustion of worked-over reservoirs, the purpose of decontrol is not to provide a permanent solution to limited domestic production capabilities. Rather, it is intended simply to provide incentives of sufficient effectiveness and duration as will yield maximum levels of domestic production until such time as supplementary energy resources can be developed. Although existing incentives are believed to have contributed substantially to the current reduction in the rate of decline in domestic production, FEA believes that existing incentives clearly cannot work to maintain domestic production at levels now thought necessary to avoid an unacceptable degree of reliance on imported fuels over the next few years.

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As also noted in the April 30, 1975, notice of proposed rulemaking, an additional benefit of decontrol of domestic crude oil will be the elimination of economic distortions caused by the present two-tiered pricing system. The two-tiered pricing system inevitably causes cost disparities among refiners and marketers of petroleum products. Although these cost disparities have been substantially reduced by the crude oil entitlements program, they can never be entirely eliminated while the two-tiered pricing system exists. Such cost disparities significantly hinder FEA's ability to assure that the competitive viability of the independent sector of the petroleum industry is maintained.

Moreover, the existing complicated structure of price controls at all levels of distribution, which is necessitated in large measure by the existence of cost disparities resulting from the two-tiered price system, tends to be self-defeating over the long run by reducing normal incentives toward increased production and cost control, and by eliminating the ability of the industry to engage in long range business planning. As effectiveness of price controls

lags over time, regulations of greater complexity and reach become necessary to maintain a controlled-price structure. And tightening of controls, in turn, tends further to stifle initiative and to contribute to greater economic distortions.

C. Findings

1. There is no shortage of crude oil.

As FEA representatives have previously testified at congressional hearings, there is currently no shortage of crude oil available to U.S. refiners. Worldwide production capability substantially exceeds current demand. U.S. refiners have been able to obtain from foreign sources all requirements needed to fill the domestic production shortfall. Inputs to U.S. refineries, which dropped markedly during the first three months of 1974, now exceed pre-embargo levels. Domestic crude oil inventories have also increased, and exceed pre-embargo levels.

The level of crude oil production in the OPEC countries continues to decline due to reduced demand. At the end of March, 1975, output was 25.72 million barrels/day (b/d), compared to 28.85 million b/d at the start of 1975, a drop of 11 percent. These production figures represent 66 percent of OPEC's currently estimated producing capacity of 39 million b/d.

U.S. petroleum inventory and import estimates for late April 1975 show an inventory-to-import ratio of approximately 167 days. This is considerably higher than the 123 days of stocks available in April 1974. Petroleum stocks were approximately 852 million barrels at the end of April 1975 and 815 million barrels at the end of April 1974, an increase of 4.5 percent. Imports for the same periods were approximately 5.1 and 6.6 million barrels per day respectively, a decrease of 23 percent.

The general availability of crude oil to meet U.S. demands is also demonstrated by current data concerning the FEA allocation programs. For example, allocation fractions for all major refined products and residual fuel oils are at or close to 1.0, generally indicating that crude oil is in sufficient supply to meet virtually all demand for refined and other products derived from crude oil. While supplies of propane are not always adequate to meet demand in all regions of the U.S., such shortage problems as occur relate principally to the fact that most propane is produced from natural gas rather than crude oil, and there has been a decreasing supply of natural gas.

In addition, activity under the FEA's crude oil allocation program has slackened during recent quarters. The buy-

sell program in its current form enables small and independent refiners to obtain crude oil supplies from the major refiners to supplement their own supplies. The fact that more and more small and independent refiners are obtaining their supplemental crude oil supplies through normal market channels further indicates the general availability of crude oil at all levels and in all regions of the U.S.

2. <u>The proposed exemption will not have an adverse impact on the supply of any other oil or refined petroleum products subject to the Act.</u>

Under today's conditions, 20 months after passage of the Act, national policy requires that dependence on imported crude oil be reduced. This can be done by stimulating domestic crude oil production and by curbing demand for residual oil and refined petroleum products. The proposal to decontrol old oil is an important step toward a greater degree of self-sufficiency in meeting our energy needs.

To the extent that decontrol contributes, as expected, to stimulate domestic crude oil production by encouraging increased exploration and drilling activity and the use of secondary and tertiary recovery techniques, decontrol obviously tends to enhance rather than adversely affect the supply of products derived from crude oil. To the extent that higher prices resulting from decontrol dampen demand, as expected, decontrol will also tend to increase rather than reduce supplies of petroleum products.

Increased production and reduced demand brought by decontrol will not result in any domestic surplus of crude oil. It is expected that the result will be an offsetting decrease in the amount of crude oil or refined product that would otherwise be imported to meet domestic needs. To this extent, decontrol will not change the overall availability of petroleum products in this country. However, because domestic crude oil is a more reliable source of crude oil for production of petroleum products than is imported crude oil, decontrol will tend to have a beneficial rather than adverse impact on the nature of the domestic supply of petroleum products subject to the Act.

3. Price controls on crude oil are not necessary to carry out the Act.

All of the purposes and goals of the Act are predicated upon alleviating the emergency conditions resulting from shortages of crude oil, residual fuel oil and refined petroleum products which were being experienced or appeared imminent when the Act was made law late in 1973. As indicated

in Finding 1, shortages of crude oil no longer exist. Inasmuch as the underlying condition to which the purposes and goals of the Act generally relate is no longer present, the necessity of price controls on old oil to carry out the Act is no longer apparent.

The express purpose of the Act, as stated in §2(b), is to grant to and direct the President to exercise "specific temporary authority to deal with shortages of crude oil, residual fuel oil, and refined petroleum products or dislocations in their national distribution system." The specific goals to be reached by exercise of the authority granted under the Act, as set forth in §4(b)(1), may be placed in the following groupings: (a) to protect the general welfare and the national defense; (b) to maintain residential heating, public services and agricultural operations; (c) to preserve an economically sound and competitive petroleum industry; (d) to allocate crude oil in order to permit refineries to operate at full capacity; (e) to provide for equitable distribution of crude oil, residual fuel oil and refined petroleum products at equitable prices among all regions and among all users; (f) to allocate residual fuel oil and refined petroleum products in order to maintain exploration and production or extraction of fuels; and (g) to provide for economic efficiency and minimization of economic distortion, inflexibility and unnecessary interference with market mechanisms.

The decontrol of old oil prices should serve to further the goals indicated in items (c) and (g), above, under present conditions. The economic inefficiencies and distortions brought about by price controls when they are extended over a long period of time are discussed in Section B, above. In addition, the gradual removal of price controls during a period of adequate supply should lead to improvement in the economic position of the petroleum industry and stimulate resumption of normal competitive conditions. These results are particularly desirable in view of the major effort which will be required to alter the trend of declining U.S. crude oil production.

The adequacy of supply under current conditions means that the threat to the national security and welfare posed by an existing or imminent shortage of crude oil no longer exists. Price controls on crude oil are therefore no longer necessary to achieve the short-term goals of the Act concerning protection of the national defense and public welfare (item (a)). For the longer term, removal of price controls should have a favorable effect on the national

defense and public welfare. As the Secretary of Treasury found in connection with the President's Proclamation regarding imposition of import fees, the heavy reliance by the United States on imported crude oil poses a significant threat to the national security. As noted above, the decontrol of old oil prices should over the long run significantly reduce reliance on foreign sources of oil.

The goals indicated in items (d) and (f) relate primarily to the allocation program or to petroleum products other than crude oil. These goals are therefore not directly affected by the proposal to decontrol the price of old oil.

The goals in item (b) address the threat to adequate supplies of fuel for residential heating, public services and agricultural operations resulting from imminent crude oil shortages. This threat was countered primarily by the allocation of crude oil used to produce fuels for these needs, and by the allocation of these fuels themselves. This fact, plus the current absence of any shortage of crude oil, leads to the conclusion that price controls on crude oil are no longer necessary to achieve the goals of the Act relating to maintaining adequate fuel supplies for residential, public service and agricultural needs.

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The goal of providing for "equitable distribution of crude oil . . . at equitable prices among all regions and . . . all users" (item (e)) is one which is clearly predicated upon the existence or imminence of a serious crude oil shortage situation. When supplies are short, normal market mechanisms may not assure equitable distribution of supplies across the country and do not prevent price gouging and other shortage-related pricing abuses. In other words, the goal of "equitable prices" should not be isolated and read out of context as mandating permanent price ceilings, even when supplies of crude oil are adequate to permit normal market mechanisms to function. In the absence of shortages of crude oil, therefore, price controls on crude oil are not necessary to carry out the goal of equitable distribution at equitable prices.

In addition, FEA believes that "equitable" prices, within the meaning of §4(b)(1)(F) of the Act, will be achieved by restoring normal market mechanisms during a period of adequate supply and by eliminating economic distortions caused by the current two-tier pricing system. However, to the extent that a return to normal market mechanisms at this time would bring prices on crude oil to levels which might be viewed in certain sectors of the economy as inequitably

high because they result in higher prices on certain petroleum products, this view is outweighted by the need to achieve other objectives of the Act and by other considerations, including the fact that decontrol is being phased in gradually and the availability of legislative measures to alleviate, through tax relief or rebates, the impact of price increases on consumers and other sectors of the economy.

On the basis of all the foregoing considerations, the FEA concludes that price controls on crude oil are not necessary to carry out the Act.

D. Comments on Old Oil Decontrol Proposal

Comments in opposition to the FEA old oil decontrol proposal generally reflected the following arguments:

1. The argument that U.S. crude oil price levels should be based on production costs and not reflect arbitrary OPEC pricing decisions.

The FEA decontrol program will ultimately permit old oil prices to rise to the vicinity of current prevailing world market prices, plus the supplementary import fee of $2.00 per barrel. Some commentators who opposed the FEA decontrol program generally felt that the world price was artificial and therefore unnecessarily high, and might go higher, resulting in still higher domestic prices for decontrolled crude oil. In order to provide appropriate incentive toward increased domestic production, it was proposed that the old oil price ceiling be retained but set at some higher intermediate level, such as $7.50, $8.50 or $10.00 a barrel.

While no indisputable conclusions in this matter are possible, it is clear that current world price levels, including the supplementary import fee, do not exceed the point at which further price increases cannot be expected to bring significant returns in terms of increased crude oil production. In the view of FEA, decontrol at prices up to price levels averaging $11.50 per barrel for the month of September, 1975, and gradually increasing at the rate of $.05 per barrel per month in each month thereafter, will effectively stimulate domestic production and over time substantially reduce our dependence on imported oil. The amendment adopted today is therefore responsive to the concern that further OPEC price increases could result in further domestic price increases above those levels providing the maximum useful production incentives, since it imposes a secondary ceiling on domestic crude oil prices.

It should be remembered in this connection that the great bulk of new domestic production of crude oil will come not from traditional production techniques within the contiguous portions of the continental United States but from more sophisticated and expensive production techniques within this area, or from the continental shelf and remote areas of Alaska. Most offshore production

is expected to come from previously untapped areas of the Atlantic and Pacific rather than from the more familiar and tested reaches of the Gulf of Mexico. These considerations all point to the need for new technologies, heavier investment burdens, greater risks and greatly increased costs of production.

In addition, the potential exists for substantial new recoveries from worked-over "onshore" reservoirs provided technology for secondary and tertiary recovery is further developed or existing technology becomes economically feasible as prices rise. While not as costly as recovery from offshore and Alaskan frontiers, recovery utilizing secondary/tertiary recovery techniques is generally substantially more costly than primary recovery.

Unfortunately, the level of incentive needed to induce high-risk exploration and cost estimates for successful development projects vary considerably due to the substantial uncertainties connected with exploration and ultimate recovery from remote and unhospitable regions and considerable doubt as to future rates of inflation. Thus, even if costs could be projected with great precision, necessary incentives for increased production could not be provided by setting prices which merely covered costs. While producers acknowledge that current uncontrolled domestic crude oil price levels provide sufficient incentive to produce new oil, nevertheless as long as three-fifths to two-thirds of production must be sold at the old oil price ceiling of approximately $5.25 per barrel, cash flow, together with other sources of capital, will not be adequate to generate enough capital to finance exploration and development of new oil, no matter what price it may be expected to bring. This problem is of even greater urgency now that tax reform has removed the depletion allowance as a means of accumulating capital for exploration and development.

In this connection, comment provided by oil producers indicates that while industry profits were high in 1974, profits for the first quarter of 1975 have dropped to an

average of about two-thirds of the level of the first quarter of 1974. On an annualized basis, this level of profit would produce a return on stockholder equity of 10.5 percent. For the ten-year period prior to 1974 the rate of return on stockholder equity was 11.4 percent for the petroleum industry compared with 11.6 percent for all manufacturing. These figures tend to support the view that the high profit levels of 1974 were not typical, and were the result of short-term non-recurring forces. According to industry comments, the steep decline in industry profits this year, while attributable in large degree to the change in the depletion allowance, significantly exceeds the decline attributable to that change.

Management decisions as to capital needs and adequacy of price incentives necessarily rest with producers and, unless control of oil production is to be assumed by the government, oil firms cannot be forced to develop and market additional amounts of crude oil, even if price levels deemed "adequate" by FEA or Congress were to be adopted. Several commentators made reference in this connection to the serious decline in natural gas production that has occurred under long-term federal price regulation.

Taking into account both FEA and industry estimates, adequate incentive for development of new "onshore" crude oil (i.e., enhanced recovery from traditional domestic reservoirs by secondary/tertiary methods) is currently estimated at between $7.00 to $10.00 a barrel; for development of new oil from Alaska and offshore or continental shelf regions, at between $7.00 to $12.00 a barrel; for development of oil from shale, at between $12.00 to $15.00 a barrel; for development of oil from coal, at about $18.00 a barrel. This array of estimates suggests that if imports are to be held at acceptable levels by substituting significant amounts of new domestic production, it will be both necessary and appropriate to allow prices eventually to rise to the vicinity of currently prevailing world market levels.

The foregoing estimates are generally supported by estimates provided to FEA by other sources. For example, industry data submitted by the Society of Petroleum Engineers

indicates that the cost of developing and producing a barrel of crude oil in 600 feet of water in the North Atlantic and North Pacific is 3.5 times the cost at the same depth in the Gulf of Mexico, while the cost in the Gulf of Alaska may range up to six times that in the Gulf of Mexico. Lag times are more than twice as great in these frontier areas. In addition, an independent economist testified before a congressional committee that the replacement cost or "economic cost" of domestic crude oil reached a level of $12.73 a barrel in 1974. The high cost of finding "replacement" barrels of crude oil for those we consume today must be financed, in the main, by profits earned on the barrels sold today.

In the opinion of FEA, the task which the nation faces is one of providing sufficient incentives to private industry to develop, to the maximum extent possible and as quickly as possible, additional domestic crude oil resources which will reduce dependence on unreliable foreign crude oil. Revival of domestic production will require a major undertaking in frontier regions at high cost. A decision to offer maximum incentives and to pursue maximum efforts to this end is our own decision and not one dictated by foreign pricing policies.

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2. <u>The argument that decontrol would impose too great a burden on the consumer</u>.

Most commenting refiners stated that old oil decontrol would result in an average price increase of 5 cents or 6 cents per gallon of petroleum product. Suggesting that actual dollar cost increases to the consumer would be within manageable limits, Exxon commented that gasoline prices today are below 1950 levels, in terms of constant dollars, and would remain so even if old oil decontrol were effected immediately. Other comments either directed attention to "ripple effects" or noted that the cost was a small price to pay for greater energy independence.

FEA assessment of impact on the consumer of the revised amendment adopted today indicates that the combined effect of the old oil phase out and secondary ceiling prices will be to keep any increases in retail prices due to increased OPEC prices or other causes at one-half to 1 cent less than they would otherwise be by the end of this year under current controls. This fact illustrates that the program to phase out crude oil price controls over a 39-month period, together with secondary price ceilings, will substantially diminish the impact of decontrol on consumers compared with the original 25-month decontrol proposal. FEA estimates that the total retail price increase attributable to decontrol will be approximately 5-6 cents per gallon of petroleum product by November, 1978.

The FEA assessment of impact on the consumer also takes into account the intangible but real benefits which would accrue to the public at large through increased national economic security brought by lessened dependence on unreliable foreign crude oil sources, improved balance of

payments position, revived domestic industrial production and new jobs in the petroleum industry. In addition, the "windfall profits" tax on oil producers' excess revenues proposed by the President would yield tax receipts which would be used to provide direct rebates to energy consumers. These factors mitigate to a significant extent the actual dollar cost to consumers.

On the other hand, the FEA is aware that prices on such products as home heating oil are already very high and that further increases could impair the ability of certain consumers (particularly the aged and the poor) to pay heating bills, despite the gradual nature of the FEA decontrol program and tax relief. Specific legislative proposals, such as a home insulation tax credit, have been proposed to the Congress to minimize the impact that relatively higher energy costs, including costs of home utilities, will ultimately have on various sectors of the economy.

However, the FEA considers the immediate adoption of this gradual crude oil decontrol program of such overriding national importance that no further delay can be justified. FEA believes this action to be consistent with the admonition in the Conference Report on the Emergency Petroleum Allocation Act of 1973 that in exercising authority under that Act it would be necessary to "strike an equitable balance between the sometimes conflicting needs of providing adequate inducement for the production of an adequate supply and of holding down spiraling consumer costs."

3. The argument that decontrol will not reduce demand.

Several comments were received which stressed that consumers have already "dialed down" and taken all other available conservation steps, and that no further realistic anti-consumption measures are available, particularly to the homeowner. According to this view, the decontrol program would therefore merely squeeze the consumer.

While the FEA acknowledges that many useful conservation measures in home heating (except perhaps major insulation efforts) were instituted last year, nevertheless comments with respect to inelasticity of demand are not borne out by the demand responses experienced with respect to past price increases.

The decontrol program will contribute to the long-term goal of reducing dependence on unreliable foreign crude oil and the benefits of achieving that goal must therefore be measured on a long-term basis. The FEA position that increased prices of domestic crude oil will dampen demand domestically is based on the realistic assumption that higher fuel prices in the long run will inevitably result in or contribute to smaller and/or more efficient automobiles, more efficient home heating systems, increased construction and use of public transportation systems, and more efficient

use of fuels in commerce and industry. All of these will contribute to contracting energy demand.

Moreover, means are available for easing short-term problems relating to demand reduction. The President has consistently urged that appropriate legislative action be taken to ease the burden on consumers of the transition to an economic system based on relatively higher costs for energy than have been experienced in the past. The FEA will continue to work actively in seeking to solve transitional consumer problems.

4. The argument that decontrol of crude oil should not be undertaken unless natural gas prices are deregulated simultaneously.

A number of petroleum marketers stated that they would not support the FEA decontrol program unless natural gas prices were decontrolled at the same time. Understandably, marketers of petroleum fuels are concerned that they will lose a share of their fuel markets to natural gas marketers if petroleum fuels become increasingly non-competitive in price.

To some degree the concern of petroleum marketers in this respect may be exaggerated. The present short supply of natural gas is expected to become more critical in the coming months, so that it is most unlikely that many consumers will be able to substitute natural gas for petroleum fuels even if the latter become more expensive. Only if Congress acts to decontrol natural gas prices substantially in advance of implementation of a program to decontrol crude oil prices could there be an expansion of natural gas supplies sufficient to permit inroads into the petroleum fuels market. In that event, of course, natural gas prices would have begun to climb before those of petroleum fuels, so that the petroleum marketers would be in a relatively better competitive position.

The FEA agrees that many of the same reasons which support decontrol of crude oil prices support decontrol of natural gas price levels. However, regulation of natural gas prices is not within the jurisdication of FEA. In exercising its responsibilities under the Emergency Petroleum Allocation Act of 1973, the FEA must move forward to develop policies and programs within its mandate, while recommending for congressional action complementary measures which are beyond FEA authority to implement.

Congress has under active consideration proposals to deregulate the prices of natural gas. In view of the

urgency of taking steps now to alter the trend toward increased imports of crude oil, and in view of the gradual phase-out approach of the FEA decontrol program, the FEA believes it is appropriate to commence gradual decontrol of old oil price ceilings without waiting for final congressional action on natural gas prices.

The FEA recognizes that the Emergency Petroleum Allocation Act of 1973 places special emphasis on protecting the competitive viability and market share of independent marketers, to the maximum extent practicable and consistent with the other objectives of the Act. FEA will therefore maintain a continuing review of the market shares of home heating oils versus competing fuels to insure that decontrol of crude oil does not have a significant adverse impact on independent marketers.

5. The argument that decontrol of crude oil should not be undertaken until a "windfall" profits tax is enacted.

For the reasons given under argument number 4, above, the FEA believes that the decontrol program must begin now, without further delay. Action on a "windfall" profits tax can be completed within the next few months by Congress without disrupting an orderly administrative decontrol program. Increases in producer revenues will be gradual under the phased decontrol schedule, and in any event a new profits tax may be imposed retroactively.

6. <u>The argument that decontrol by FEA would harm the airline industry, in contravention of one of the goals of the EPAA</u>.

Representatives of the airline industry commented that U.S. airlines, already in financial difficulty because of the increases in jet fuel prices in 1974 and the effects of the recession on airline travel, would be further adversely affected by another round of fuel price increases brought about by decontrol.

The airline industry takes the position, in effect, that decontrol should not be permitted to proceed because it would impair public air transportation in contravention of one of the goals of the Emergency Petroleum Allocation Act.

The FEA recognizes that one of many express goals to be achieved by the allocation and price regulations promulgated under the Emergency Petroleum Allocation Act of 1973 is to "provide for maintenance of all public services . . . including transportation facilities." However, the concern of Congress in this respect was directed to the adequacy of supplies to keep transportation systems running. This is clearly shown by the following specific discussion of air transport problems in the Conference Report on the Act.

> The petroleum fuel shortage threatens numerous areas of commerce. The jeopardy from shortage of these fuels impacts most directly on transportation. Without adequate petroleum fuel most United States' domestic and international transportation, with no option to convert to other fuels, potentially would be seriously disrupted. A significant reduction of transportation capability could adversely affect all other areas of commerce and the national economy. Thus, one of the primary objectives of the Act is to assure maintenance of transportation services.

The Act clearly does not require the "maintenance" of price ceilings on certain petroleum products purchased by a particular industry.

Moreover, each of the many goals listed in §4(b) of that Act is qualified by the proviso that the allocation and price regulations need provide for those goals only "to the maximum extent practicable." In explaining why this qualification was included, the Conference Report stated, "It is fully recognized that, in some instances, it may be impossible to satisfy one objective without sacrificing the accomplishment of another." The qualification was thus intended, according to the Report, "to give the President administrative flexibility in marshalling short supplies and equitably assigning them to particular needs."

Therefore, even if FEA were to agree with the airline industry's view that decontrol does not fully meet one of the many sometimes conflicting objectives under the Act, this would not overcome the FEA's conclusion as to the overriding need to proceed with this decontrol program -- a program designed to reflect the present adequacy of supplies and to begin on a gradual basis to restore the petroleum industry to normal functioning.

The FEA is sensitive to the special problems which face the airline industry and other public service industries due to energy cost increases. The change from a 25 to a 39-month phase-out schedule should serve to reduce the impact of decontrol on industries which are especially dependent on petroleum fuels. The FEA is prepared to discuss with any industry or affected group other ways in which adverse effects under the decontrol program can be minimized.

E. Rule Modification.

1. Length of Phase-Out Period.

A great variety of suggestions were received for changing the 25-month period for decontrol proposed by FEA in its notice of proposed rulemaking in this matter. These ranged from requests for immediate decontrol, to decontrol over a 5-10 month period, to decontrol over a 4 or 5-year period. However, many commentators indicated that they would be willing to accept the FEA proposal on this issue as a compromise or second choice.

Those who proposed a longer period for phase-out were chiefly concerned with minimizing or softening the impact on the economy or on consumers, in particular. Those proposing a shorter period stressed either the need to remove the economic distortions and other deleterious effects of

controls as soon as possible or the need to achieve a greater degree of national self-sufficiency in crude oil at a more rapid pace.

The FEA must, of course, strike a balance between these opposing considerations or concerns. The FEA initially concluded that a somewhat more gradual decontrol pace, at the rate of 3.3 percent a month for 30 months (after decontrol of one percent for the month of July, 1975), represented a reasonable balance on this issue, and the initial amendment submitted to the Congress on July 16, 1975 therefore provided for a 30-month phase-out.

Upon further consideration, a gradual phase-out program is adopted in this revised decontrol amendment which differs in several significant respects from the 30-month phase-out program. First, the length of the phase-out period has been substantially extended, from 30 months to 39 months. This period is 56 percent longer than the initial 25-month proposal, and 30 percent longer than the 30-month amendment that was submitted to Congress on July 16, 1975. Second, the decontrol program is scheduled to begin effective September 1, 1975, compared with June 1, 1975, under the initial 25-month decontrol program and mid-July under the 30-month decontrol amendment submitted to Congress. Third, the rate of decontrol has been substantially reduced in the first 12 month portion of this longer period, from 3.3 percent each month under the 30-month plan to 1.5 percent each month under the 39-month decontrol program. It has also been reduced in the second

12-month period, from 3.3 percent to 2.5 percent; and in the remaining 15 months of the program, it will be at the rate of 3.5 percent or approximately the same as the 3.3 percent rate that was initially adopted for the entire 30-month decontrol program. These changes will go even further in minimizing the effect of decontrol on the consumer and/or insuring that the decontrol program will not have any appreciable impact on the nation's current economic recovery.

2. Requirement of Maximum Feasible Rates of Production.

Comments were received which expressed concern that the decontrol program, as proposed, might have the unintended result of reducing production temporarily if producers held back on production until the end of the phase-out period, when all crude oil could be sold at uncontrolled price levels.

In view of this possibility, the FEA has decided to adopt generally the same express requirement now applicable by its terms only to the stripper well lease exemption, which requires production to be maintained at maximum feasible rates of production. The FEA believes this requirement is appropriate to assure that the purpose and intent of the decontrol program are not circumvented. The requirement is also fully consistent with the main purpose of decontrol, which is to maintain and increase current levels of domestic production as rapidly as possible. Any holding back would defeat this purpose and would also defeat the effort to minimize adverse effects on the economy by phasing out controls on a gradual basis.

3. Decontrol Base Level.

Under the proposed rule the amount of decontrolled oil would have been calculated as a percentage of the base production control level crude petroleum (i.e., 1972 production) rather than as a percentage of the old oil currently being produced. It was pointed out to FEA that inasmuch as 1972 production levels are generally greater than current production levels, the monthly decontrol volume would be correspondingly larger if the amount of decontrolled oil were to be calculated against a 1972 base. This would mean that the old oil produced from a property would be decontrolled in a period of less than 25 months, to the extent that its current production was at less than 1972 levels. Thus, the overall decontrol program, as proposed, would have extended to the end of that 25-month period, and would have affected for the full 25 months (as proposed) those properties which continue to produce at 1972 levels, but would have decontrolled properties producing at less than 1972 levels before the end of that period.

In order to clarify this ambiguity concerning the phase-out schedule and in order to assure a full 39-month phase-out for all properties which continue to be productive, the FEA has concluded that it would be preferable to calculate the amount of decontrolled crude oil on the basis of a recent level of old oil production rather than on the basis of the 1972 base level production.

The FEA has also concluded that, in view of the urgent need for increased domestic production of crude oil, the modified decontrol amendment should be designed to provide production incentives for all properties, at all levels of production, and to provide a continuing incentive for incremental production.

In view of the foregoing considerations, the decontrol rule adopted by FEA today has been modified to measure decontrolled old crude oil by reference to an established base of the recent production level of old oil from the property concerned, which will then be reduced gradually until it has been entirely phased out at the end of the 39-month program for decontrol. This will provide an immediate and continuing price incentive to all properties to increase production above that level. Accordingly, the new regulation establishes a "decontrol base production level," which is defined as the average monthly production of old oil from the property concerned during the three calendar months ending June 30, 1975, based on maximum feasible rates of production in those months, and an "adjusted decontrol base production level," which is the decontrol base production level, reduced in each month by the appropriate percentage (e.g., at the rate of 1.5 percent per month for the first

12 months). Any old oil production above that adjusted decontrol base production level in each month beginning with September, 1975, will be decontrolled. Since the decontrol calculations are based exclusively on old oil production levels (total production, less "new" and "released" oil), this amendment leaves undisturbed and is in addition to the existing regulations which permit "new" and "released" crude oil to be priced at market levels, except that such "new" and "released" crude oil will now be subject to the secondary ceiling price.

Thus, producers that have production in excess of 1972 levels shall first calculate the amounts of "new" and "released" crude oil produced and sold from the property concerned. If the amount of "old" crude oil resulting from that calculation is in excess of the adjusted decontrol base production level for that month, the amount of that excess is "decontrolled old crude petroleum." If the amount of "old" crude oil is less than the adjusted decontrol base production level, but there is additional production in excess of the "old" crude oil which constitutes "new" and "released" crude oil, such "new" and "released" crude oil may continue to be priced at the secondary ceiling price, pursuant to the "new" and "released" crude oil price rules.

In order to insure that monthly fluctuations in production and sale of crude oil do not have anomolous price results, a cumulative deficiency provision has been included in the definition of "decontrolled old crude petroleum," which is analogous to the cumulative deficiency provision in the definition of "new crude petroleum." The cumulative deficiency provision provides that, once "decontrolled old crude petroleum" has been produced and sold from a property, any production at less than the adjusted decontrol base production level in future months must first be made up before further sales of decontrolled old crude petroleum can be made. It should be noted that it is only total current production of crude oil from a property at less than the adjusted decontrol base level which will result in a deficiency -- not production of old crude oil at less than that level. This will insure that deficiencies in decontrolled old crude petroleum will not result from production at levels in excess of 1972 levels, which result in reduced amounts of old crude oil through operation of the "new" and "released" crude oil price rules.

4. Decontrolled Price Ceiling.

Price policies recently announced by OPEC indicate that world crude oil price levels, which have remained generally stable for more than a year, might be increased in the coming months.

In order to avoid the possibility that sharp increases in future world prices might result in equivalent U.S. domestic price increases, and in order further to cushion the impact of decontrol on the current economic recovery, the FEA has further modified its proposed rule, to establish in this amendment a secondary price ceiling for decontrolled domestic crude oil averaging $11.50 per barrel during the first month of the 39-month decontrol period, and gradually increasing at the rate of $.05 per barrel per month in each month thereafter. This ceiling will apply to all domestic crude oil other than stripper well crude oil, which is exempt from price controls pursuant to the Emergency Petroleum Allocation Act of 1973.

With respect to properties from which crude oil was produced and sold on May 15, 1973, or prior thereto, the secondary ceiling price shall be in September, 1975, the old oil ceiling price determined pursuant to §212.73(b), plus $6.25 per barrel. Since the nationwide average price for old oil subject to the ceiling price rule of §212.73(b) is currently about $5.25 per barrel, this would result in a nationwide average secondary ceiling price of approximately $11.50 per barrel for new, released and decontrolled crude oil in September 1975. Ceiling prices determined under §212.73(b) are based on the actual May 15, 1973 postings for crude oil, which reflect price differentials for quality -- the principal factors being gravity and sulfur content. Use of May 15, 1973 postings therefore preserves these quality differentials, so that the ceiling price rules do not result generally in purchasers paying the same price for different quality crude oil.

With respect to crude oil produced from properties from which crude oil was not produced or sold on or before May 15, 1973, the secondary ceiling price is specified as $11.50 per barrel for the month of September, 1975, with the proviso that the FEA may, by regulation or order, make appropriate upward and downward adjustments in the secondary ceiling price, but only to reflect the extent to which the sulfur content differs from 1.7 percent and the gravity differs from 34° API. Thus, the secondary ceiling price can be adjusted by FEA to permit quality differentials also to be reflected in this ceiling price. At the same time, however, the national average price level will be maintained at or very near the specified secondary ceiling price level, and the regulation does not, in any event, permit any departure from the prescribed secondary ceiling price level as to 1.7 percent sulfur and 34° API gravity crude oil.

Whichever method is used to asertain the secondary ceiling price -- May 15, 1973 postings or the FEA prescribed secondary ceiling price -- that price will be increased at

the rate of $.05 per barrel per month in each month after September, 1975.

Should Congress adopt a windfall profits tax measure, as urged by FEA, any increased oil-producer revenues generated due to possible future OPEC price increases would be returned to the Treasury whether or not FEA imposed a secondary crude oil price ceiling. However, assuming a windfall profits tax is enacted and the authority of the FEA to regulate petroleum prices is extended, it would remain the responsibility of FEA to monitor progress toward import-reduction goals and to take such additional steps as might be necessary to assure that domestic production is increased at the rate and in the manner deemed most appropriate. The establishment of a secondary price ceiling at this time helps to clarify energy policy for both producers and consumers and is in keeping with FEA's continuing responsiblity to guide and direct attainment of energy policy goals.

5. Technical Changes.

Technical changes have been made in §§211.62 and 212.131 to conform the entitlements program and the crude oil sales certification requirements to the decontrol program.

(Emergency Petroleum Allocation Act of 1973, as amended, Pub. L. 93-159, as amended by Pub. L. 93-511; Federal Energy Administration Act of 1974, Pub. L. 93-275; E.O. 11790, 39 FR 23185).

In consideration of the foregoing, Parts 211 and 212 of Chapter II, Title 10 Code of Federal Regulations, are amended as set forth below, effective September 1, 1975, unless this amendment or any portion thereof is disapproved by either house of Congress during the period of five sessional days allowed for legislative review under §4(g)(2) of the Emergency Petroleum Allocation Act of 1973, as amended.

Issued in Washington, D.C., July 25, 1975.

Robert E. Montgomery, Jr.
General Counsel
Federal Energy Administration

1. Section 211.62 is amended in the definition of "old oil" to read as follows:

§211.62 Definitions.

* * *

"Old oil" means old crude petroleum less any related decontrolled old crude petroleum, as each of these terms is defined in §212.72 of this chapter.

* * *

2. Section 212.72 is revised to add, in appropriate alphabetical order, definitions of "adjusted decontrol base production level," "decontrol base production level" and "decontrolled old crude petroleum" to read as follows:

§212.72 Definitions.

* * *

"Adjusted decontrol base production level" means the decontrol base production level, less:

(a) where the current month is one of the 12 months following August, 1975, 1.5 percent of the decontrol base production level for that property multiplied by the number of months beginning with September, 1975, through the current month;

(b) where the current month is one of the 12 months following August, 1976, 18 percent of the decontrol base production level for that property plus 2.5 percent of the decontrol base production level for that property multiplied by the number of months beginning with September, 1976, through the current month; and

(c) where the current month is a month following August, 1977, 48 percent of the decontrol base production level for that property plus 3.5 percent of the decontrol base production level for that property multiplied by the number of months beginning with September, 1977, through the current month.

* * *

"Decontrol base production level" means the total number of barrels of old crude petroleum produced and sold from the property concerned during the three calendar months ending June 30, 1975, divided by three. The decontrol base production level for each property shall be based upon each well on that property having been maintained at the maximum feasible rate of production during the three calendar months ending June 30, 1975, in accordance with recognized conservation practices, and not significantly curtailed by reason of mechanical failure or other disruption

in production. In a case where the property concerned was not so maintained, the FEA may assign a decontrol base production level which fairly represents the production level which would have been attained if that property had been so maintained.

"Decontrolled old crude petroleum" means, with respect to a specific property, the total number of barrels of old crude petroleum produced and sold in the current month in excess of the adjusted decontrol base production level for that month, less the current cumulative deficiency in adjusted decontrol base production level. The current cumulative deficiency in adjusted decontrol base production level is the total number of barrels by which production and sale of crude petroleum has been less than the adjusted decontrol base production level, for all months in which production and sale of crude petroleum has been less than the adjusted decontrol base production level subsequent to the first month in which decontrolled old crude petroleum was produced and sold, minus the total number of barrels of old crude petroleum produced and sold in each prior month which was in excess of the adjusted decontrol base production level for that month, but which was not classified as decontrolled old crude petroleum because of this requirement to reduce the amount of decontrolled old crude petroleum in each month by the amount of the current cumulative deficiency in adjusted decontrol base production level.

3. Section 212.74 is revised to read as follows:

§212.74 New, released and decontrolled old crude petroleum.

(a) Notwithstanding the provisions of §212.73(a), but subject to paragraphs (b) and (c) of this section, a producer of crude petroleum may charge any price for the new crude petroleum, the released crude petroleum, and the decontrolled old crude petroleum produced and sold from the property concerned in the month concerned.

(b) Until December 1, 1978, no producer may charge a price for any new crude petroleum, released crude petroleum, or decontrolled old crude petroleum which exceeds the secondary ceiling price. For purposes of this paragraph, the secondary ceiling price is: (i) for crude petroleum produced from a property from which crude petroleum was produced and sold on May 15, 1973, or prior thereto, the ceiling price as determined under §212.73(b) plus $6.25 per barrel plus an amount equal to $.05 per barrel multiplied by the number of months beginning with October, 1975, through the current month;

(ii) for crude petroleum produced from a property from which crude petroleum was not produced and sold on May 15, 1973, or prior thereto, $11.50 per barrel for all domestic crude petroleum plus an amount equal to $.05 per barrel multiplied by the number of months beginning with October, 1975, through the current month; provided however, that the FEA may by regulation or order permit appropriate upward adjustments and require appropriate downward adjustments in the secondary ceiling price for crude petroleum having a sulfur content other than 1.7 percent and viscosity other than 34° API to reflect quality differences in actual sulfur content and actual viscosity of the crude petroleum concerned from the 34° API, 1.7 percent sulfur reference crude petroleum.

(c) A producer that charges a price for decontrolled old crude petroleum which exceeds the ceiling price for old crude petroleum shall maintain each well on the property concerned at all times at the maximum feasible rate of production, in accordance with recognized conservation practices, and shall use all reasonable means to insure that production is not significantly curtailed by reason of mechanical failure or other disruption in production.

4. Section 212.131 is revised in paragraphs (a) and (b) to read as follows:

§212.131 Certification of domestic crude petroleum sales.

(a)(1) Each producer of domestic crude petroleum shall, with respect to a first sale of domestic crude petroleum, certify in writing to the purchaser: (i) the ceiling price of that domestic old crude petroleum, (ii) the amount of stripper well crude petroleum, (iii) the amount of new crude petroleum, (iv) the amount of released crude petroleum, (v) the amount of decontrolled old crude petroleum, and (vi) the amount of old crude petroleum which has not been decontrolled, provided, that the certification requirements of this paragraph (a)(1) may be complied with by a one-time certification by a producer to the purchaser as to the base production control level crude petroleum for each month of 1972 and as to the decontrol base production level for the particular property. The certification shall also contain a statement that the price charged for the domestic crude petroleum is no greater than the maximum price permitted pursuant to this part.

(2) Each seller of domestic crude petroleum, other than a producer of domestic crude petroleum covered by paragraph (a)(1) of this section shall, with respect to each sale of domestic crude petroleum other than (i) an allocation sale pursuant to §211.65 of part 211, or (ii) a sale in which no volumes of old oil (as defined in §211.62) are deemed to have been transferred pursuant to §211.67(g) of part 211, certify in writing to the purchaser the amount of old crude petroleum which has not been decontrolled

included in the volume of domestic crude petroleum so sold. The certification shall also contain a statement that the price charged for the domestic crude petroleum is no greater than the maximum price permitted pursuant to this part.

(b) With respect to each allocation sale under §211.65 of part 211, the seller shall certify in writing to the purchaser the amount of old crude petroleum which has not been decontrolled deemed (under the provisions of §211.67(f) of part 211) to be included in the volume of crude petroleum so sold. Such written certification shall be made within 25 days following the month in which the crude oil so sold is delivered to or for the account of the purchaser.

* * * * *

U. S. GOVERNMENT PRINTING OFFICE : 1975 O - 589-727

FACT SHEET - OIL DECONTROL

The President has indicated that he cannot accept an extension of price controls on oil past August 31 unless Congress approves his compromise plan to decontrol over 39 months prior to its recess.

The only way Congress can approve the President's compromise plan prior to recess is to reject H. Res. 641 - a resolution to disapprove the President's program. The only alternative to rejection is immediate decontrol on August 31.

Some Congressmen believe that a better approach to this issue is to approve H. Res. 641 -- to reject the President's plan administratively -- and then approve Rep. Krueger's amendment to H.R. 7014, an amendment that would legislate the President's 39 month compromise into law with a windfall profits tax.

This latter approach is not viable in the few days remaining before the recess. H. R. 7014 contains many controversial features that may not be resolved by Friday. The windfall profit tax has not even been developed. There is also the issue of how to move H.R. 7014 through the Senate before recess. Rep. Krueger has proposed to conference H.R. 7014 with S. 622, a bill that has never had hearings in the House and one that passed the Senate with only a narrow margin due to several controversial provisions. The House simply cannot accept such a measure without a full debate.

There is no need to even try to rush H.R. 7014 or S. 622 through the Congress before recess, even if it were possible. Acceptance of the President's decontrol plan by rejecting H. Res. 641 is only valid for 90 days under provisions of the Emergency Petroleum Allocation Act.

If the resolution is rejected, the President would accept a short extension of price controls and Congress would thus have additional time to complete H.R. 7014 with the Krueger amendment and an appropriate windfall profits tax. During this period, prices would be rolled back below current levels as a result of the President's administrative action. Immediate decontrol would be avoided.

If Congress could not resolve these issues by the end of 90 days, the President's administrative action would terminate unless approved by Congress for a second 90 day period. With this option, therefore, the Congress has a significant insurance policy.

Finally, it should be noted that the Administration has agreed to drop the import fee on residual fuel, heating oil and other products as part of the President's decontrol plan. Besides the price reductions already present in the President's compromise, this further action would reduce energy bills along the east coast and in areas such as California by $300 - 400 million per year.

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FOR IMMEDIATE RELEASE JULY 30, 1975

WESTERN GOVERNORS ENDORSE GRADUAL DECONTROL OF OIL PRICES

Ten Democratic Western Governors resolved to support the Administration's goal of gradual decontrol of old oil prices at a meeting yesterday in Santa Fe, New Mexico.

The resolution, introduced by New Mexico Governor Jerry Apodaca, Chairman of the Western Governors' Regional Energy Policy Office, came at the conclusion of a two-day conference called to formulate a common energy policy for the Rocky Mountain region.

While calling for gradual decontrol of old oil prices, the Governors also emphasized that total decontrol on August 31 would bring "serious stress and strain on the economy." They further endorsed the windfall profits tax with a plowback provision.

Federal Energy Administrator Frank G. Zarb said today, "We appreciate the Governors' support for phased decontrol of old oil prices. It is clearly the most equitable plan for American consumers to help encourage increased domestic energy production and help free us from foreign manipulation.

"While total decontrol would place serious strains on the economy, a slow phase-out of Federal Government controls over 39 months would allow adequate time for the economy to adjust," Zarb said.

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"Because we recognize that state-level expertise and experience and these Governors are so necessary to the formulation and implementation of a truely National energy policy, I feel this endorsement is especially significant."

The ten States represented at the Conference were Nebraska, North Dakota, South Dakota, Montana, Wyoming, Colorado, Nevada, Arizona, Utah, and New Mexico.

Text of the Governors' resolution follows:

Whereas, Congress and the President have yet to formulate an effective program for the stimulation of domestic exploration and production of oil and gas.

Be it Resolved:

1. That the states feel total decontrol of oil prices on August 31, 1975, will bring serious stress and strain on the economy and in itself will not be totally conducive to increased oil production.

2. That the states urge a program of gradual decontrol of old oil prices be adopted, while new oil, stripper oil, and secondary oil should not be controlled at the wellhead.

3. That the states feel any windfall profits that the domestic oil industry would make on increased prices should be taxed with an excess profits tax unless the producers plow back this increased revenue to develop new reserves and production.

4. That the states urge imports of oil and oil products be controlled economically and physically, with the 1974 level of imports being adopted under an allocation program, and that this level be decreased each year as new domestic production is brought on stream.

-FEA-

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E-75-254

FACT SHEET ON PRESIDENT'S OIL PRICE CONTROL PHASE OUT PLAN

What It Does

The amendment to FEA price control regulations proposed by the President:

--will decontrol "old" oil prices (now subject to a price ceiling of $5.25 per barrel) over a 39-month period beginning September 1, 1975 and ending November 30, 1978. The phase out would be at a rate of 1.5% per month for the first 12 months, 2.5% for the next 12 months, and 3.5% per month until decontrol is complete.

--establishes a ceiling price in the form of a "rollback" for "new" and "released" oil (domestically produced crude oil now not under price controls) of $11.50 per barrel for the month of September 1975 which will be increased at a rate of 5¢ per barrel per month, reaching $13.40 per barrel in November 1978.

--reduces average prices of petroleum products by .5¢ to 1.0¢ per gallon by the end of 1985.

--by comparison to the July 14th proposal, the new proposal extends the phase out period from 30 to 39 months and lowers the ceiling price on "new" and "released" oil from $13.50 to $11.50 per barrel. The July 14th proposal was disapproved by the House on July 22d.

Opportunity for Congressional Review

The Emergency Petroleum Allocation Act provides:

--that such plan is subject to a Congressional veto in the form of a resolution of disapproval by either house. S. Res. 145 is the resolution of disapproval now on the Senate calendar which will probably be called up this week.

--THAT IF THE NEW PLAN WHICH EXEMPTS OIL FROM PRICE CONTROLS IS NOT DISAPPROVED BY S. RES. 145 (OR BY THE HOUSE), THE PRESIDENT MUST RE-TRANSMIT HIS OIL DECONTROL PLAN WITHIN 90 DAYS, AT WHICH TIME IT IS AGAIN SUBJECT TO A RESOLUTION OF DISAPPROVAL.

The Alternative

The only existing authority under which oil prices can be controlled is the Emergency Petroleum Allocation Act which expires on August 31, 1975. If either house of Congress disapproves the new compromise proposal, the President will have no alternative but to veto any extention of the Emergency Petroleum Allocation Act, resulting (unless overriden) in the immediate discontinuation of all existing price and allocation controls as of August 31, 1975.

Conclusion

It is accordingly recommended that you vote against S. Res. 145.

If S. Res. 145 is defeated, then:

--the phase out of price controls on "old" oil will be gradual and therefore not inflationary.

--ceiling prices will be established, immediately rolling back prices, for oil now not under controls.

--you will have another opportunity in 90 days to disapprove the President's decontrol plan.

--you will have an opportunity to vote for separate legislation to establish a windfall profits tax on U.S. oil production.

If S. Res. 145 passes, then:

--all price and allocation controls on oil will, in all likelihood, expire on August 31st.

THOMAS P. O'NEILL, JR.
MASSACHUSETTS
MAJORITY LEADER

8-5

File

Disposal S 1849

Congress of the United States
House of Representatives
Office of the Majority Leader
Washington, D.C. 20515

4 August 1975

The President
The White House
Washington, D. C.

Dear Mr. President:

Now that you are back from Europe, I know that you will be turning your attention to the all important energy issue. We have talked about this issue in the past and I am familiar with your views. I agree with you that the nation must get its energy house in order. If we are to restore our economy and our position in the world, Congress and the Administration must find a way to compromise their differences over the means for dealing with energy issues.

A stalemate now appears to exist between the Administration and the Congress. Should you veto S.1849, the six-month extension of the Emergency Petroleum Allocation Act, a serious confrontation would follow. Economic recovery would be threatened and future cooperation with Congress would be even more difficult - if not impossible. If this confrontation can be avoided, I think that the Congressional Majority, meeting the challenge of putting together an alternative to the Administration's energy program, will be ready for real negotiation and compromise.

A fair reading of the record of this Congress on energy demonstrates that in only one quarter of a term it has hammered out a record number of important pieces of energy legislation, which will go to House-Senate Conference in September. Issues covered by both House and Senate passed legislation will include:

-- Strategic energy storage.
-- Oil reserve development.
-- Auto fuel efficiency standards.
-- Industrial fuel efficiency standards.
-- Standby emergency powers in case of a renewed embargo, and others.

These are key pieces of any broad energy program. One billion barrels of emergency storage is the equivalent of six-months' total imports, and more than one year's imports from the Arabs.

Similarly, increased auto and industrial fuel efficiency standards, if diligently developed and administered, would save more energy than would any reasonable increase in oil prices. European nations lower gasoline consumption levels by selling gasoline for $1.50 to over $2.00 per gallon, prices which are unthinkable here. Clearly, conservation legislation like that now going to Conference is a better answer.

I believe that the Congress can get together with you on these issues, and on price issues as well, this fall. In addition, I understand that there may be natural gas and energy tax measures which might be part of a larger energy policy compromise.

I urge you, therefore, to sign the extension of the Emergency Petroleum Allocation Act which the Congress has adopted. Extension of the EPAA continues very high prices for new oil, contrary to the wishes of the Congressional Majority, and controlled prices for old oil, which the Administration has opposed. But, I would hope that the Administration would prefer the extension to political confrontation and economic devestation which would follow a veto.

With every good wish,

Sincerely,

'Tip'

Thomas P. O'Neill, Jr.

RED TAG

THE WHITE HOUSE

WASHINGTON

August 15, 1975

MEMORANDUM FOR: JACK MARSH

THRU: VERN LOEN VL

FROM: CHARLES LEPPERT, JR.

SUBJECT: House Members' Reaction to President's Statement on Energy, August 15, 1975 Vail, Colorado

On pre-notice calls to House Members on the President's message on energy in Vail, Colorado, I received the following reactions:

Rep. Al Ullman (D-Ore)

Questioned if the President would wait to lift the oil import fees until after the Congress acts on the motion to override the veto of the six month extension. Ullman was told yes, that the President would wait to see if Congress sustained the veto, if so he'd remove the $2 import fees and if not he'd continue the fees.

Ullman stated he could not accept immediate decontrol. Ullman stated he could support fully the President's 39 month decontrol plan with the $11.50 cap and removal of the $2 import fees.

Ullman stated that he will have to work vigorously to override the veto and support the objectives of phased decontrol.

Rep. John Dingell (D-Mich)

This veto is something that he has been trying to avoid. "Frankly, this means that I have to fight and will work to override the veto. I want you to know and your people at the White House to know this. I have always tried to let you people know what my position is so you don't ask why I am changing my position. But you should know that I intend to attack this veto as a careless disregard of the public interest and a shameful contest to buy votes. I will immediately when the Congress comes back in September, begin extensive hearings which will provide the basis to obtain the votes to override the veto and show the evils of immediate decontrol. This veto is going to wreck the economy and more importantly the back of the petroleum industry, the jobbers, distributors and independent refiners and not the big majors like Exxon, Texaco, etc.

"If I would have had some clearer signals from the White House on some of the things I was trying to do up here, I think we could have avoided this veto. The only thing I can do now is fight and you may as well know it and for a while we are just going to have to fight on this one."

Rep. Barber Conable (R-NY)

Doesn't think the President is in a position of strength and has played this thing wrong. The President should have called Congress back into session on this issue and made Congress the issue and kept Congress out front on this issue.

Thinks the President is in a position of weakness on the issue now and will be looked upon as the one trying to drive energy prices up. He has handed the Democrats control of the situation now and they can hold hearings and do all kinds of things to make the President the issue. Considers that the President has made himself the issue by not agreeing to call the Congress back to face up to this issue. Recognizes that the President is trying to live with a Democratic Congress, considers many of them his friends and wants to make it look like he is working with the Congress, but at the same time he's giving the Democrats the opportunity to cut out his guts publicly through hearings and demagoguery making the President the issue.

The President does not seem to want to take Al Cederberg and my advice on this because we are tough on this issue and want him to play some hard politics with these people who are playing pure and simple politics with the President. Thinks the President has got himself in a bad position but will continue to support him.

Rep. Herman Schneebeli (R-Pa.)

Expected the President to veto the extension and agrees with his position on the import fees. Feels the Circuit Court of Appeals didn't understand that Congress in passing the Trade Act intended to give the President the authority to levy import duties and says the record of the legislation should bear this out.

Rep. Harley Staggers (D-W. Va.)

Could not be reached - travelling in his Congressional District. Left message with his Washington office.

THE WHITE HOUSE

WASHINGTON

August 27, 1975

MEMORANDUM FOR: JACK MARSH

THROUGH: VERN LOEN

FROM: TOM LOEFFLER T.L.

SUBJECT: Request by Congressman Joe Waggonner (D.-La.)

During a telephone conversation with Congressman Waggonner this afternoon, the Congressman asked that the President be informed of the following.

--- That Congressman Waggonner is unequivocally opposed to rumors indicating that possible natural gas curtailments could be resolved by national allocation of intrastate gas.

--- Mr. Waggonner feels that coupled with a veto of S. 1849, it is most important that the President announce a means of relief for independent refiners adversely effected by immediate decontrol.

--- The Congressman asked that the President be informed that he is going all out to see that a potential veto of S. 1849 is sustained in the Senate or if need be, in the House of Representatives.

cc: Max Friedersdorf
Bob Wolthuis
Bill Kendall
Pat O'Donnell
Charles Leppert

HOLD FOR RELEASE UNTIL DELIVERED
TO THE SENATE

SEPTEMBER 9, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE SENATE OF THE UNITED STATES:

I am today vetoing S. 1849, which would extend price controls on domestic oil another six months. I am taking this action because:

1. An extension of price controls would increase our dangerous and growing dependence on imported oil.

2. It would increase the export of jobs and dollars from our economy.

3. It would jeopardize our future economic stability and national security.

4. It would retard conservation of energy.

5. It would postpone the badly needed development and production of new domestic energy.

6. It would negate the possibility of long-range compromise on this problem because of expected Congressional reluctance to tackle the issue of higher oil prices in an election year.

Since 1971, America's bill for imported oil has climbed from just over $3 billion annually to $25 billion today -- a 700% increase. This $25 billion could provide more than one million jobs for Americans here at home. We cannot delay longer.

Last January in my State of the Union Message, I proposed to the Congress a comprehensive energy program to make the United States independent of foreign oil by 1985.

The need for such a program grows with each passing day. Right now, the United States is dependent on foreign oil for almost 40 percent of its current needs. If we do not act quickly to reverse this trend, within 10 years, we will import more than half of the oil we need at whatever price is demanded by foreign producers who can cut off our supply any time they want to.

The more foreign oil we import, the more dollars and the more jobs we lose from our economy. And as American jobs and dollars flow out of the country, so does our economic and national security.

The 1973 embargo cost us more than $15 billion in Gross National Product and threw hundreds of thousands of persons out of work. It dramatically showed our vulnerability. Another disruption would be even more costly in dollars and jobs -- and could throw us into a new recession.

The detailed legislative program I sent to the Congress last winter involved tough measures to put us immediately on the road to energy independence. It would have conserved the

more

energy we now have and accelerated development and production of more energy here at home.

Because this program would have increased energy prices somewhat until new domestic supplies were developed, I also proposed tax legislation to prevent undue profit-taking by oil companies and to return energy tax dollars to American consumers to offset the slightly higher prices they would pay.

Since I could not gamble with our Nation's security while waiting for the Congress to act on my comprehensive program, I raised the import fees on each barrel of foreign crude oil in February as an interim measure to reduce imports.

The Congress still has not acted. Throughout these months, I have compromised again and again and again to accommodate Congressional requests.

I delayed putting the second dollar fee on imported oil for 90 days, finally imposing it June 1. I delayed the third dollar indefinitely. Still, the country has seen no Congressional action.

In my State of the Union Message last January, I announced a decision to remove the ceiling on price-controlled domestic oil April 1, permitting it to rise from $5.25 per barrel to the free market price. This action would have immediately stimulated production and development of needed additional energy supplies and also encouraged conservation. At the request of Congressional leaders, I postponed such action to give them time to work out a different solution.

After nearly six months without Congressional passage of a decontrol bill or any other positive legislation, I proposed in early July a compromise 30-month phased oil decontrol plan. This program represented an effort to meet the concerns raised by many members of Congress and showed the Administration's willingness to compromise. The House of Representatives rejected this plan.

I made another effort to reach a solution before the August Congressional recess by submitting another decontrol plan, which would have gradually phased out price controls over a 39-month period and put a price ceiling on all domestic oil.

I believe this decontrol plan went more than halfway to meet concerns raised by the Congress. Although it would achieve energy objectives more slowly than warranted, I offered it in the spirit of compromise, because action was desperately needed.

Instead, the House also rejected this compromise attempt and Congress passed this bill which would simply extend the pricing and allocation authorities for another six months. This proposed action would only ensure the continued growth of our dependence on foreign oil.

I cannot approve six more months of delay -- delay which would cost needed jobs and dollars and compound our energy and economic problems.

more

From my experience in the Congress, I am well aware that it will be easier to pass the tough legislation needed to begin solving the energy problem this year rather than during the 1976 election year. The six-month price controls extension contained in the bill I am vetoing would postpone possible action until at least the Spring of 1976 and in all likelihood would mean an indefinite delay in our efforts to begin solving this problem.

Despite last minute attempts made in good faith by the Democratic and Republican leadership, their effort to achieve a compromise in the Congress has failed. It is clear that too many Members of the Congress have not come to grips with the decontrol issue -- much less the overall energy problem.

We must have a national energy program before we have a national energy emergency. Our time to act instead of react grows shorter with each day and with each delay.

Without price controls on domestic oil, we can reduce dependence upon imported oil by reducing domestic consumption by more than 700,000 barrels per day within two years. We can reduce dependence in the long run by increasing domestic production by nearly one and one-half million barrels per day by 1985. By continuing controls, imports will increase because of a lack of incentives to spur domestic production and the energy problem will get worse and worse.

If my veto is sustained, I still will accept a 45-day extension of price controls to provide time to work with the Congressional leaders who have assured me that they will seek an acceptable compromise during this period. If this further compromise fails, however, I will take the following actions to ensure an orderly transition from government controls to the free market:

-- I will remove the previously imposed $2 per barrel import fees on crude oil and a 60 cents fee on petroleum products.

-- I will again press the Congress to enact a windfall profits tax with plow back provisions and to return the money collected to the American consumer.

-- I will propose legislation to provide a gradual transition from price controls for small and independent refiners.

-- I will propose legislation to provide authority to allocate liquified petroleum gases, such as propane, to supply these important fuels at reasonable prices to farmers, rural households and curtailed natural gas users.

-- I will seek authority to provide retail service station dealers legal remedies to protect their interests against unwarranted actions by the major oil companies.

Since January, I have gone more than halfway in order to reach a responsible compromise. Obviously, we have talked and delayed long enough. We must act now to protect not only

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ourselves, but future generations of Americans. I urge Members of the Senate and the House to sustain my veto and get on with the job of meeting this problem head-on.

The continued failure of Members of the Congress to enact a National Energy Program puts us increasingly at the mercy of foreign oil producers and will certainly result in Americans paying substantially higher prices for their fuel.

GERALD R. FORD

THE WHITE HOUSE,

September 9, 1975.

# # # # # #

H Res 637
Sustained by S.
9/10/75

FOR IMMEDIATE RELEASE September 9, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

I have today vetoed S.1849, which would have extended for six months price controls on domestic oil. So there is no doubt in the minds of the American people and the Congress, let me tell you why I have taken this action:

-- First, to save American jobs.

-- Second, to protect our future economic stability and national security.

-- Third, to assure that this Nation after months and months of delay achieves a comprehensive national energy program for future independence from foreign suppliers.

Since Federal price controls were placed on domestic oil four years ago, America's bill for imported oil has continued to rise -- from just over $3 billion annually to more than $25 billion today -- an increase of seven hundred percent. I am talking about American dollars -- your dollars -- to pay for foreign oil and for foreign jobs. This $25 billion could provide more than one million jobs for Americans here at home.

Put another way, the average American family today is paying out $350 a year to foreign oil producing nations -- which could and should be spent in this country to put Americans to work.

If I signed this bill continuing controls, America's start on the road to energy independence could be delayed indefinitely. I am well aware of the reluctance of Members of the Congress to face up to such a difficult problem just as an election campaign is getting underway.

For more than eight months, I have tried to get the members of this Congress moving on a solution to this urgent problem of national energy independence. My latest effort at a compromise with the Congress has resulted in nothing more than this proposed six-month extension of the existing law -- which is no answer at all to a program of energy independence for the United States.

During the four years that Federal controls have been in operation --controls which Members of Congress now want to extend -- the cost of energy to American consumers has soared, and our dependence on foreign oil has doubled. Still, Congress refuses to enact a national energy program.

(MORE)

If this veto is sustained, I would accept a 45-day extension of controls to provide time to work with the leaders of the Congress who have again assured me they will seek an acceptable compromise during this period.

If all efforts at compromise fail, I will act to ensure an orderly transition from government controls to the free market.

Resolution of the oil price controls issue is an essential first step toward a total energy independence program. We must have a national energy program before we have a national energy emergency. Our time to act instead of react grows shorter with each day. I urge Members of the Senate and the House to sustain this veto and get on with the job of meeting this problem head-on.

The continued failure of Members of the Congress to enact a National Energy Program puts us increasingly at the mercy of foreign oil producers and will certainly result in Americans paying substantially higher prices for their fuel.

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HOLD FOR RELEASE UNTIL DELIVERED
TO THE SENATE

SEPTEMBER 9, 1975

Office of the White House Press Secretary

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THE WHITE HOUSE

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1. An extension of price controls would increase our dangerous and growing dependence on imported oil.

2. It would increase the export of jobs and dollars from our economy.

3. It would jeopardize our future economic stability and national security.

4. It would retard conservation of energy.

5. It would postpone the badly needed development and production of new domestic energy.

6. It would negate the possibility of long-range compromise on this problem because of expected Congressional reluctance to tackle the issue of higher oil prices in an election year.

Since 1971, America's bill for imported oil has climbed from just over $3 billion annually to $25 billion today -- a 700% increase. This $25 billion could provide more than one million jobs for Americans here at home. We cannot delay longer.

Last January in my State of the Union Message, I proposed to the Congress a comprehensive energy program to make the United States independent of foreign oil by 1985.

The need for such a program grows with each passing day. Right now, the United States is dependent on foreign oil for almost 40 percent of its current needs. If we do not act quickly to reverse this trend, within 10 years, we will import more than half of the oil we need at whatever price is demanded by foreign producers who can cut off our supply any time they want to.

The more foreign oil we import, the more dollars and the more jobs we lose from our economy. And as American jobs and dollars flow out of the country, so does our economic and national security.

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Petroleum

energy we now have and accelerated development and production of more energy here at home.

Because this program would have increased energy prices somewhat until new domestic supplies were developed, I also proposed tax legislation to prevent undue profit-taking by oil companies and to return energy tax dollars to American consumers to offset the slightly higher prices they would pay.

Since I could not gamble with our Nation's security while waiting for the Congress to act on my comprehensive program, I raised the import fees on each barrel of foreign crude oil in February as an interim measure to reduce imports.

The Congress still has not acted. Throughout these months, I have compromised again and again and again to accommodate Congressional requests.

I delayed putting the second dollar fee on imported oil for 90 days, finally imposing it June 1. I delayed the third dollar indefinitely. Still, the country has seen no Congressional action.

In my State of the Union Message last January, I announced a decision to remove the ceiling on price-controlled domestic oil April 1, permitting it to rise from $5.25 per barrel to the free market price. This action would have immediately stimulated production and development of needed additional energy supplies and also encouraged conservation. At the request of Congressional leaders, I postponed such action to give them time to work out a different solution.

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I made another effort to reach a solution before the August Congressional recess by submitting another decontrol plan, which would have gradually phased out price controls over a 39-month period and put a price ceiling on all domestic oil.

I believe this decontrol plan went more than halfway to meet concerns raised by the Congress. Although it would achieve energy objectives more slowly than warranted, I offered it in the spirit of compromise, because action was desperately needed.

Instead, the House also rejected this compromise attempt and Congress passed this bill which would simply extend the pricing and allocation authorities for another six months. This proposed action would only ensure the continued growth of our dependence on foreign oil.

I cannot approve six more months of delay -- delay which would cost needed jobs and dollars and compound our energy and economic problems.

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From my experience in the Congress, I am well aware that it will be easier to pass the tough legislation needed to begin solving the energy problem this year rather than during the 1976 election year. The six-month price controls extension contained in the bill I am vetoing would postpone possible action until at least the Spring of 1976 and in all likelihood would mean an indefinite delay in our efforts to begin solving this problem.

Despite last minute attempts made in good faith by the Democratic and Republican leadership, their effort to achieve a compromise in the Congress has failed. It is clear that too many Members of the Congress have not come to grips with the decontrol issue -- much less the overall energy problem.

We must have a national energy program before we have a national energy emergency. Our time to act instead of react grows shorter with each day and with each delay.

Without price controls on domestic oil, we can reduce dependence upon imported oil by reducing domestic consumption by more than 700,000 barrels per day within two years. We can reduce dependence in the long run by increasing domestic production by nearly one and one-half million barrels per day by 1985. By continuing controls, imports will increase because of a lack of incentives to spur domestic production and the energy problem will get worse and worse.

If my veto is sustained, I still will accept a 45-day extension of price controls to provide time to work with the Congressional leaders who have assured me that they will seek an acceptable compromise during this period. If this further compromise fails, however, I will take the following actions to ensure an orderly transition from government controls to the free market:

-- I will remove the previously imposed $2 per barrel import fees on crude oil and a 60 cents fee on petroleum products.

-- I will again press the Congress to enact a windfall profits tax with plow back provisions and to return the money collected to the American consumer.

-- I will propose legislation to provide a gradual transition from price controls for small and independent refiners.

-- I will propose legislation to provide authority to allocate liquified petroleum gases, such as propane, to supply these important fuels at reasonable prices to farmers, rural households and curtailed natural gas users.

-- I will seek authority to provide retail service station dealers legal remedies to protect their interests against unwarranted actions by the major oil companies.

Since January, I have gone more than halfway in order to reach a responsible compromise. Obviously, we have talked and delayed long enough. We must act now to protect not only ourselves, but future generations of Americans. I urge Members of the Senate and the House to sustain my veto and get on with the job of meeting this problem head-on.

The continued failure of Members of the Congress to enact a National Energy Program puts us increasingly at the mercy of foreign oil producers and will certainly result in Americans paying substantially higher prices for their fuel.

GERALD R. FORD

THE WHITE HOUSE,

September 9, 1975.

# # # # # #

RED TAG

THE WHITE HOUSE

WASHINGTON

September 10, 1975

MEMORANDUM FOR: MAX FRIEDERSDORF

FROM: VERN LOEN VL

SUBJECT: Next step on Energy

Chairman Harley Staggers (D-W. Va.) tells me that he expects to get a 60 day extension of the Emergency Petroleum Allocation Act from the Senate, probably Thursday, September 11. He will try to get unanimous consent to accept it in the House.

Should he get a 45 day extension, Staggers says he will have to consult his committee. He doubts that some of the radicals there will accept anything less than 60 days.

When I tried to pin him down as to whether he would go for the President's 39 month decontrol plan, he was very evasive, just saying, "it's too soon to tell."

From past comments, I expect Staggers to come back with a 48 month extension, a lower Cap than $11.50 and various other pernicious changes, using H.R. 7014 now pending in the House as the vehicle.

cc: Bill Kendall
Charles Leppert
Tom Loeffler
Pat O'Donnell
Bob Wolthuis

FILE

Calendar No. 364

94TH CONGRESS
1ST SESSION

H. R. 9524

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 11, 1975

Ordered to be printed

AMENDMENT

(IN THE NATURE OF A SUBSTITUTE)

Proposed by Mr. MANSFIELD to H.R. 9524, an Act to extend the Emergency Petroleum Allocation Act of 1973, viz: Strike all after the enacting clause and insert the following:

SHORT TITLE

SECTION 1. This Act may be cited as the "Emergency Petroleum Allocation Act of 1975".

EXTENSION OF MANDATORY ALLOCATION PROGRAM

SEC. 2. Section 4 (g) (1) of the Emergency Petroleum Allocation Act of 1973 is amended by striking out "August 31, 1975," wherever it appears and inserting in lieu

Nov 15, 1975

thereof "~~sixty days after the date of enactment of the Emergency Petroleum Allocation Act of 1975~~".

Amdt. No. 878

★(Star Print)

SEC. 3. It is the intent of the Congress that the regulations promulgated under the Emergency Petroleum Allocation Act of 1973 shall be effective for the period between August 31, 1975, and the date of enactment of this Act.

SEC. 4. The purpose of this limited extension of the Emergency Petroleum Allocation Act is to provide Congress and the Executive adequate time and opportunity to reach mutual agreement on a long-term petroleum pricing policy. During the period of this extension it is the intent of the Congress that the status quo shall be maintained and the President shall institute no major change in petroleum pricing policy under section 4(g)(2) of the Act Prior to Nov 1, 1975 ~~for forty-five days after the date of enactment of this Act~~. Any adjustment the President may make in price shall be in accord with his policy on inflation impact statements and economic justification set forth in Executive Order Numbered 11821 and in Circular Numbered A-107, January 28, 1975, Office of Management and Budget.

Any Senate Resolution to disapprove a Presidential decontrol proposal submitted under 4(g)(2) shall be immediately placed upon the Senate legislative calendar and any motion by the Majority Leader or his designee thereafter to proceed to the consideration of such disapproval Resolution shall be decided without debate and by majority vote; and within 48 hours after the disapproval Resolution is made the pending business, or sooner if otherwise ordered by the Senate, the Chair shall direct the Clerk to call the roll on the final disposition of the disapproval Resolution without any further debate or intervening motion, any other rule or provision of law notwithstanding.

September 23, 1975

FILE

EXPLANATION
OIL PRICING ACT OF 1975
AND DEREGULATION TAX ACT OF 1975

Explanation of Title I - Oil Pricing Act

This legislation amends Section 4(g) of the Emergency Petroleum Allocation Act to provide for phased decontrol of oil prices and allow for the proper transition to the termination of price and allocation controls. The legislation accomplishes the following:

1. Thirty-nine month phase out of crude oil price controls. Old oil would be phased out over a 39-month period beginning November 1, 1975, and ending January 31, 1979, at the rates of 1.5% the first 12 months, 2.5% the next 12 months, and 3.5% the last 15 months. A secondary ceiling price of $11.50 per barrel would be imposed on all new, released and decontrolled domestic oil beginning November 1, 1975, rising $.05 each month thereafter to a level of $13.40 by January 31, 1979.

2. Removal of price controls on natural gas liquids (propane) over the 39-month period at the same rate as the phase out of old oil. The 70% of the propane derived from the natural gas stream can now only increase in price under FEA regulations as the cost of natural gas increases. Without a phase out of controls on NGL's, decontrol of crude oil prices will operate to increase the disparity between natural gas derived propane and crude oil derived propane and cause serious market distortions.

3. Elimination of requirement for prior Congressional review every 90 days for all exemptions. If price controls on crude oil must be retained for over 3 years, many currently extraneous regulatory measures can be removed long before the expiration of that period. FEA is granted discretionary authority to exempt products from unnecessary allocation and price controls upon certain findings of fact.

4. Exemption for crude oil produced by high-cost enhanced recovery methods. Because a large percentage of the potentially available incremental domestic production is obtainable only by high-cost tertiary recovery methods, which might not be adequately stimulated by a 39-month phase out plan, FEA is permitted by regulation to exempt such production from old oil price controls, and allow it to be sold at the secondary ceiling price of $11.50 after November 1, 1975.

5. Treatment of stripper well oil in the same manner as new oil. If the first sale of stripper well oil continues to be exempt from price controls and a secondary ceiling price of $11.50 is placed on new and decontrolled oil, the price of stripper well oil would probably be somewhere between the price of new oil and the landed cost of imported crude oil. Thus, unless stripper well oil is also subject to the secondary price ceiling, a 4-tier cost equalization entitlements program would become necessary which would be almost impossible to administer.

6. Extension of EPAA until January 31, 1979. The Allocation Act must be extended for the same length of time as the phase out of old oil to allow the continuation of the entitlements program and the crude oil allocation program since controls on the price of crude oil require that these programs be maintained.

Title II - Deregulation Tax

Effect

The effect of the tax is to decontrol revenues to producers over a period of 55 months (regardless of the actual decontrol of prices to consumers), unless they reinvest an amount which represents increased investment in future supplies. This is a slower rate than the rate that prices would be decontrolled under Title I. If producers' revenues are "decontrolled" over a period which is longer than 55 months, the oil producing sector does not realize any benefit that could reasonably be regarded as "windfall profits." Thus, no "windfall" or "deregulation" tax would be necessary.

How the Tax Works

Amount of the Tax

The tax will be equal to 90 percent of the difference between the sales price of a barrel and the price at which that barrel would sell if it were controlled. On the average, the controlled price will be about $5.25 and the tax will be 90 percent of the price above $5.25 for each taxable barrel.

Oil which is taxed

The only production which is subject to tax is the number of decontrolled barrels in excess of the number that would have been decontrolled over 55 months at rates of 0.5 percent per month for the first 12 months, 1.5 percent per month for the second 12 months, and 2.5 percent per month thereafter.

Oil which is not taxed

The tax will not apply to barrels which are subject to the controlled price. In addition, the tax will not apply to the number of barrels which would be decontrolled if the decontrol plan were over a longer period of 55 months instead of the 39 months provided under Title I.

Example: In the above example, the producer had 200 barrels controlled in August and (under the 39 month plan) 197 barrels controlled in September. If he produced 200 barrels in June, he could sell 3 barrels (i.e. 1.5 percent) at the market price, but 90 percent of the price increase on 1 barrel (i.e. 1.5 percent minus 0.5 percent) would be recaptured by the tax (except for the plowback credit).

Plowback Credit

One-half of the tax on the taxable barrels will be forgiven only if the producer reinvests enough of his profits to satisfy two requirements. First, he must invest $3 for each barrel he produces and which was controlled before the new decontrol plan is adopted. That is about the historic level of re-investment. Second, in addition to the $3 per barrel replacement cost, he must invest an amount equal to the tax he wants forgiven (limited to 50 percent).