PERMANENT TAX CUT

Q. Who will benefit most from the President's proposed permanent tax reductions on incomes of individuals?

A. While everyone will benefit under the President's plan, low and middle-income taxpayers will benefit more than those with higher incomes. 86% of the total tax cut will go to persons with adjusted gross incomes below $20,000 and 70% to those with adjusted gross incomes below $15,000.

ENERGY CONSERVATION

Q. How do you know your measures are going to work?

A. We believe our proposal will work because people will find it preferable to use less energy than to pay more. Our figures show, and there is relative agreement in the opinion of experts, that for each 10% increase in price, the demand for petroleum drops by about 1 percent.

We believe that the American people are smart enough to decide how to allocate their increased expenses for energy, rather than have the Government decide that for them. A quota system would place that decision-making authority in the hands of the Government, and would cause disparities in the marketplace. Our program, however, permits the consumer to make the choice.

ENERGY CONSERVATION

Q. Why do we need to conserve energy when gasoline is plentiful and we have the resources to make this country energy independent in the next decade?

A. Crude oil, gasoline and other petroleum products are readily available from foreign sources. The problem is that petroleum imports will continue to grow if we do not hold down demand. Increased imports mean an outflow of dollars and jobs and increased vulnerability to another embargo.

ENERGY INDEPENDENCE

Q. Why are there no short-term measures other than Elk Hills and coal conversion to increase our domestic supply?

A. There are a number of things we can do to increase domestic energy production. The problem is that all of them take time before the energy comes on line. For example, it takes about 3-5 years to open up a new oil field and ten years for a new nuclear power plant.

The President's program calls for immediate action on a number of measures to encourage domestic energy production and those measures will contribute more and more domestic energy in the years ahead.

THE NEED FOR IMMEDIATE ACTION

Q. Some critics have called for a gradually imposed conservation program, including the phasing in of oil and gas taxes over 2 years, the gradual lifting of price controls, and no oil import fee. Wouldn't this be more easily absorbed in a soft economy than what you have proposed?

A. The President's energy program takes immediate and direct steps to reduce our dependence on foreign oil and to cut energy demand. While a more gradual program would be easier for the economy to absorb, it would postpone attainment of the goals set forth by the President.

POSSIBILITY OF AN EMBARGO

Q. What happens if, after our efforts to save fuel by paying higher prices and living with less energy, the Arab countries turn around and impose another embargo?

A. Though we do not expect another embargo, such an event could occur. Hence, the President is requesting a set of standby authorities to deal with any significant future energy emergency, including authorities to implement standby conservation plans and allocations of petroleum products. The President is also proposing the establishment of a strategic petroleum storage system for both civilian and domestic use during an energy emergency.

OIL FEE PROCLAMATION

Q. Since the oil fees are only for 90 days, why not just wait for Congress to act on the $2 fee?

A. The increased oil import fees have no expiration date. They will remain in effect until the Congress acts on the President's tax legislation. The reason for the fees in this period is that this problem is so serious that we must take action now to achieve our goals. We have already waited too long.

OIL FEE PROCLAMATION

Q. The President has signed a Proclamation which will increase oil prices in February. How are people going to pay for these increased costs when they don't get their rebate back until the spring or summer?

A. The oil import fee imposed by the President's order is a vital step in moving ahead on his entire energy policy. The total increase of $3 ($1 on February 1, $2 on March 1, and $3 on April 1) will increase the cost of gasoline by approximately 3 1/2 cents per gallon. The price effects will not occur immediately, so consumers will not be directly affected until the oil is converted into products and sold to consumers. That should occur sometime in late spring. By the time the full effects of the energy taxes begin to be felt by consumers, the adjustments to the tax withholding rates should be in place. If the Congress acts rapidly on the President's economic and energy programs, the economy will receive a stimulus of several billion dollars beginning in the spring and continuing through the year.

WINDFALL PROFITS TAX

Q: If the windfall profits tax phases out over time, will it discourage current production or encourage the holdback of production until the tax declines?

A: No. The rate at which the tax declines is slow enough that producers would be better off to produce and sell the oil, pay the tax and reinvest the proceeds than to leave the oil in the ground.

WINDFALL PROFITS TAX

Q. How will the windfall profits tax work?

A. The windfall profits tax on crude oil imposes a graduated excise tax (15% to 90%) on the excess of the sales price per barrel of oil over an amount called the adjusted base price, which is set at a level intended to permit a normal, but not a windfall profit. For each month the tax is effective, the adjusted base price increases, thereby reducing the amount subject to tax.

In summary, the tax is designed to capture a windfall profit -- that is, one which results from a sudden change in price caused by a circumstance which is accidental and transitory. It is difficult to separate ordinary market prices from prices which permit windfall profits (or "excess" profits if one wishes to think of it that way). We have made an estimate -- a judgment -- as to the "long-term supply price," i.e., the minimum price to producers that will be sufficient to induce and increase in our supplies of oil sufficient to make us energy independent by 1985. Our judgment is that the price required for this is around $7 to $8 at today's price levels, assuming the continuation of percentage depletion. The tax is designed to permit producers to retain an amount equal to the long-term supply price by the time additional oil supplies will be coming on line three to five years from now.

To be certain that high cost oil producers never have to pay more in taxes than they have in profits, the tax will never be imposed on more than 75% of the taxable income from the property that would exist if there were no windfall profits tax.

PERCENTAGE DEPLETION ON OIL

Q. Why are you not at this time recommending the elimination of percentage depletion on oil? I thought you said percentage depletion should go, if prices were decontrolled.

A. We have said all along that the best way to capture the windfall profits which were accruing to domestic oil producers was not through the elimination of percentage depletion, but through a windfall profits tax.

As a matter of tax reform -- which we hope the Congress will take up just as soon as they can following their consideration of these proposals -- we are willing to consider the subject. But we shouldn't encumber this high priority program with that issue.

COAL PROFITS

Q. Why, when you have proposed a windfall profits tax on oil, have you neglected to propose a tax on coal profits, especially since coal prices have risen so rapidly in the last year?

A. It is unlikely that coal profits will increase substantially. We believe that the increases in coal prices over the past year, particularly in spot markets, were largely related to the drive to store up coal in anticipation of a strike last November.

More important, however, is the fact that -- unlike oil -- approximately 80% of all coal is under long-term contracts, so that prices and profits cannot increase substantially.

FEA currently is conducting a study on coal companies' profits and, if they are found to be excessive, appropriate measures will be taken.

RATIONING

Q. Recent opinion polls indicate that the American people favor coupon rationing to increases in the price of gasoline. Wouldn't rationing be just as effective as price increases, and easier to legislate?

A. First of all, rationing is a one-sided coin -- controlling gasoline consumption -- whereas our plan will reduce consumption of all fuel products, and at the same time stimulate an increase in supply. Second, coupon rationing requires the establishment of a cumbersome bureaucracy. It would take 4-6 months to implement, require 15,000 - 25,000 full-time people to run and an additional $2 billion in Federal costs.

Yet, given the fluid nature of our society, it is probably limited to a useful life of no more than two years. The longer a rationing program is in place, the more ways people find to get around it.

Also, there would be gross inequities under rationing that could not be resolved by any classification system we have yet devised. For instance, a family of four with 2 teenage children could have a ration of as much as 36 gallons per week, whereas a family of four with one adult driver and 2 infants would receive only 9 gallons a week at the coupon price.

Another victim of the rationing proposal is the GNP. An allocation/rationing program would create a drop of an estimated $13 billion in the GNP and would place several hundred thousand more workers on unemployment.

We feel that the only reason rationing is even being seriously considered is that the facts on it are not fully known; anyone who studies it carefully will, we think, understand the need to implement the President's program.

RATIONING

Q. In effect, isn't your energy program price rationing? If so, wouldn't it be more equitable to impose coupon rationing, so that the poor or moderately poor aren't proportionally overburdened by price increases?

A. In some ways the energy conservation program is price rationing, but there are crucial differences: first, the President's program focuses on all petroleum products and natural gas -- not just gasoline, which is the favorite target for most who think rationing is the answer.

There is a second crucial difference between coupon rationing and price increases. Under our program, the consumer decides where his dollar is to be spent. Under coupon rationing, that decision is made by the Federal Government.

HORSEPOWER TAX

Q. Why not tax new automobiles on a horsepower basis, to discourage purchase of "gas-guzzlers" and induce people to buy smaller cars with smaller engines?

A. The Administration carefully considered a horsepower tax, and concluded that the President's proposals to increase the price of gasoline would have a more immediate effect. We have made an agreement with the Big 3 auto manufacturers to increase gasoline mileage by 40%. It would meet energy conservation goals more equitably than horsepower taxes.

Taxes on new cars based on horsepower would not affect the majority of cars on the road until 1980, at the earliest. Further, purchasers of large cars are the least sensitive to price increases, and a resonable tax would be unlikely to deter many purchases.

Also, prices of used cars would be driven up, artificially penalizing low-income families.

AUTOMOBILE FUEL EFFICIENCY

Q. Following your announced agreement with the automobile manufacturers to improve fuel efficiency by modifying pollution controls, the DOT, FEA and EPA stated jointly that they believe the Clean Air Act standards of 1977 could be met, and still achieve a 40% fuel economy increase by 1980. Why is there this discrepancy within the Executive Branch, and who are we to believe?

A. There really is no discrepancy. There are a number of reports prepared in the Executive Branch which indicate that the agencies concerned (EPA, DOT and FEA) believe that, under the most optimistic circumstances, the current Clean Air Act standards for 1977 could be met and still achieve a 40% fuel economy increase by 1980. However, attempting to meet those standards would involve high dollar and energy costs. Our most optimistic assessments of the technology involved show that:

-- The initial cost of the cars would be between 5% and 10% higher -- that is $200 and $400.

-- There would be a large fuel economy loss between now and 1980 (when improved technology might be available). For example, the fuel economy loss in 1977 would be at least 10%.

-- Allowing the current Clean Air Act standards for 1977 to go into effect would produce very little improvement in air quality because 1975 nationwide standards are already very low compared to previous years.

This optimistic example illustrates the important point that achieving any particular auto emission standards involves costs -- in terms of initial automobile price and in fuel economy. Less optimistic assessments of the technology that will be available by 1980 indicate that the Clean Air Act standards for 1977 would involve even higher costs and fuel penalties.

The task at hand for the Nation is to decide on the best balance between improved air quality in the cities that have an auto-related pollution problem and the price that will be paid nationwide to meet auto emission standards.

AUTOMOBILE FUEL ECONOMY

Q. Secretary Morton said the target for 1980 is 20 miles per gallon for all new cars. The three major auto manufacturers have pledged only 18.7 miles per gallon. What really is the target?

A. The overall target for all 1980 model year cars sold in the U.S. is 19.6 miles per gallon (which Secretary Morton rounded to 20). This is a 40% increase over the 14 miles per gallon average for all 1974 model cars, domestic and foreign, sold in the U.S.

The agreement covers only the big three domestic companies: Ford, GM and Chrysler. It calls for an average of 18.7 miles per gallon by the 1980 model year. The 18.7 figure compares to 13 miles per gallon for Big 3 cars in 1974. This is an increase of 44%.

AIRLINE INDUSTRY

Q. Several airline executives have said that the President's energy proposals will require a 20 to 30% increase in airlines fares. They also indicate that several airlines may not be able to survive financially because of the increased cost of oil due to the taxes and tariffs. Does the President plan to give the airlines special dispensation?

A. We recognize that the airlines do have a legitimate problem. Their fuel costs will go up very substantially. Several alternatives to help the airlines cope with increased costs are being explored and an effective plan will be developed. We do not believe a fare increase of 20 to 30% will be necessary. Even if other measures to help solve the airlines' problems are not successful, we believe that fare increases would not need to exceed 10 to 15%.

The airlines consume over a billion gallons of fuel every year. It is essential that they do their part to reach our energy conservation goals.

NUCLEAR AND COAL - FIRED PLANTS

Q. More than 60% of nuclear and coal-fired power plants have been delayed within the last year. How will the President's program turn that around?

A. First, we have proposed a series of measures that would improve the utilities' financial situation. These include raising the investment tax credit from 4 to 12% for all utilities for 1 year and maintaining the 12% level for two additional years for power plants other than those fired by oil and gas. We have proposed legislation that would reform, on a selective basis, State regulatory commission practices and require fuel cost pass-throughs, as well as a maximum of 5 months for rate or service proceedings.

We have proposed facility siting legislation, so that the States will have the capability to make siting decisions for the whole State or region.

REGIONAL EFFECTS

Q. What is the Administration's plan to help more heavily affected areas -- particularly the Northeastern States?

A. Although the President's program will increase import fees both on crude oil and products by \$1.00 on February 1, \$2.00 on March 1, and \$3.00 on April 1, imported products will receive a rebate that will make the effective increase in the fee approximately zero in February, 60¢ in March, and \$1.20 in April. The reason for the rebate is to assure that users of imported products will continue to share from the lower costs of price controlled "old" domestic crude under the FEA's "Old Oil Entitlements" program. This will reduce any disproportionate impact of the fees on the Northeastern States.

When the President's \$2.00 excise/tariff package on petroleum and the 37¢ tax on natural gas are enacted, all regions of the country will contribute equally to reductions in energy consumption.

NORTHEAST

Q. What is the Northeast dependency on oil products?

A. The Northeast depends on petroleum for approximately 85% of its energy requirements. The rest of the country relies on petroleum for an average of only 46% of its total energy needs.

NORTHEAST

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

A. The uneven regional effects will be dealt with through the existing cost equalization program and lower product import fees. In the longer term, regional effects will be handled by bringing nationwide oil prices into greater parity. These measures will mean that oil and natural gas price increases should be about equal for all sections of the country.

S.O.T.U. MESSAGE

EMBARGOED FOR RELEASE
UNTIL 1:00 P.M., EST

JANUARY 15, 1975

EMBARGOED FOR WIRE TRANSMISSION
UNTIL 10:00 A.M., EST

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

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

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

When the bipartisan applause stopped, President Truman said:

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

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

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

more

(OVER)

This year's Federal deficit will be about $30 billion; next year's probably $45 billion. The national debt will rise to over $500 billion.

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

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

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

We are better able to meet the peoples' needs.

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

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

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

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

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

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

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

more

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

more

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

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

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

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

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

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

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

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

more

(OVER)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

more

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

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

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

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

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

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

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

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

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

-- 200 major nuclear power plants,

-- 250 major new coal mines,

-- 150 major coal-fired power plants,

-- 30 major new oil refineries,

-- 20 major new synthetic fuel plants,

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

-- the insulation of 18 million homes,

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

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

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

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

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

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

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

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

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

more

(OVER)

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

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

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

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

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

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

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

The whole world is watching to see how we respond.

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

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

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

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

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

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

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

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

more

(OVER)

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

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

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

To sum up:

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

-- put the unemployed back to work;

-- increase real income and production;

-- restrain the growth of government spending;

-- achieve energy independence; and

-- advance the cause of world understanding.

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

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

GERALD R. FORD

THE WHITE HOUSE,

January 15, 1975.

# # # #

S.O.T.U. FACT SHEET

EMBARGOED FOR RELEASE
UNTIL 1:00 P.M., EST

JANUARY 15, 1975

EMBARGOED FOR WIRE TRANSMISSION
UNTIL 10:00 A.M., EST

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S STATE OF THE UNION MESSAGE

Page

THE PRESIDENT'S ECONOMIC AND TAX PROGRAM

Background 5
Current Situation and Near-term Outlook for the Economy. . 6
Major Elements of the President's Economic
and Tax Program 7
I. A $16 Billion Temporary Anti-Recession
Tax Reduction 7
II. Energy Conservation Taxes and Fees 7
III. Permanent Tax Reduction Made Possible by Energy
Taxes and Fees 7
IV. One Year Moratorium on New Federal
Spending Programs 8
V. Budget Reductions 8

Specific Proposals Announced by the President 9
I. Temporary, Anti-Recession Tax Cut
of $16 Billion 9
A. Tax Cut for Individuals of $12 Billion 9
B. Temporary Increase in Investment Tax
Credit of $4 Billion 10
II. Energy Conservation Taxes and Fees 12
A. Administrative Actions 12
1. Oil Import Fee 12
2. Crude Oil Price Decontrol 13
3. Control of Imports 13
B. Taxes Proposed to the Congress 14
1. Petroleum Excise Tax and Import Fee 14
2. Natural Gas Excise Tax 14
3. Windfall Profits Tax 15
III. Permanent Tax Reductions and Payments to
Nontaxpayers made possible by Energy Conservation
Taxes 17
A. Reductions for Individuals of $16.5 Billion. . 17
B. Residential Conservation Tax Credit
of $.5 Billion 18
C. Payments to Nontaxpayers of $2 Billion 19
D. Tax Reductions for Corporations
of $6 Billion 20

more

(OVER)

Page

IV. Moratorium on New Federal Spending Programs . . . 20
V. Budget Reductions 20

Summary of the Budget Impact of the New Taxes, Fees and Tax Cuts 23

Inflation Impact of the Taxes, Fees and Tax Cuts 26

Presidential Proposals of October 8, 1974, being Resubmitted for Congressional Action 27

THE PRESIDENT'S ENERGY PROGRAM

Background 29
U.S. Energy Outlook -- Near-term, Mid-term and Long-term 30

National Energy Policy Goals and Principles Announced by the President 31
I. Near-term (1975-1977) 31
II. Mid-term (1975-1985) 31
III. Long-term (Beyond 1985) 32
IV. Principles 32

Actions Announced Today by the President 33
I. Actions Announced by the President to Meet Near-term (1975-1977) Goals 33
A. Administrative Actions 33
1. Import Fee on Petroleum 33
2. Backup Import Control Program 34
3. Crude Oil Price Decontrol 34
4. Increase Public Education on Energy Conservation 34
B. Legislative Proposals 34
1. Comprehensive Energy Tax and Decontrol Program 34
a. Windfall Profits Tax on Crude Oil . . 34
b. Petroleum Excise Tax and Import Fee. . 34
c. New Natural Gas Deregulation 35
d. Natural Gas Excise Tax 35
2. Elk Hills Naval Petroleum Reserve 35
3. Conversion to the Use of Domestic Coal . . 35

more

Page

II. Actions Announced by the President to Meet Mid-term (1975-1985) Goals 36
A. Actions to Increase Domestic Energy Supply . . 36
1. Naval Petroleum Reserve Number 4 (Legislative) 36
2. Outer Continental Shelf (OCS) Leasing (Administrative) 37
3. Reducing Domestic Energy Price Uncertainty (Legislative) 37
4. Clean Air Act Amendments (Legislative) . . 37
5. Surface Mining (Legislative) 38
6. Coal Leasing (Administrative) 38
7. Electric Utilities 39
a. Uniform Investment Tax Credit (Legislative) 39
b. Higher Investment Tax Credit (Legislative) 39
c. Preferred Stock Dividend Deductions (Legislative) 39
d. Mandated Reforms of State Utility Commission Processes (Legislative) . . 39
e. Energy Resources Council Study (Administrative) 39
8. Nuclear Power 40
a. Expedited Licensing and Siting (Legislative) 40
b. 1976 Budget Increase for Safety, Safeguards and Waste Management (Legislative) 40
9. Energy Facilities Siting (Legislative) . . 40
B. Action to Conserve Energy 40
1. Auto Gasoline Mileage Increases (Administrative) 40
2. Building Thermal Standards (Legislative) 41
3. Residential Conservation Tax Credit (Legislative) 41
4. Low-Income Energy Conservation Program (Legislative). 42
5. Appliance Efficiency Standards (Administrative) 42
6. Appliance and Auto Efficiency Labelling Act (Legislative) 42

Page

C. Emergency Preparedness Actions 42
  1. Strategic Petroleum Storage (Legislative) 42
  2. Standby and Planning Authorities (Legislative) 43
    a. Energy Conservation 43
    b. Petroleum Allocation 43
    c. End Use Rationing 43
    d. Materials Allocation 43
    e. Emergency Domestic Oil Production Increase 43
    f. Petroleum Inventory Regulation 43

III. Actions Announced by the President to Meet Long-term (Beyond 1985) Goals 43
  A. Synthetic Fuels Program (Administrative) . . . 44
  B. Energy Research and Development Program . . . 44
  C. Energy Research and Development Administration (ERDA) 44

Table Summarizing Impacts of Near- and Mid-term Actions on Petroleum Consumption and Imports 45

INTERNATIONAL ENERGY POLICY AND FINANCING ARRANGEMENTS

Background 46

U.S. Position 46

Actions Taken by Oil Consuming Nations 46

Other U.S. Actions and Proposals 47

more

The President's Economic and Tax Program

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

BACKGROUND

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

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

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

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

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

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

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

--- There were two international devaluations of the dollar.

Inflation contributed strongly to the forces of recession:

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

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

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

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

CURRENT SITUATION AND NEAR-TERM OUTLOOK

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

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

more

MAJOR ELEMENTS OF THE PRESIDENT'S ECONOMIC AND TAX PROGRAM

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

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

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

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

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

SPECIFIC PROPOSALS ANNOUNCED BY THE PRESIDENT

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

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

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

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

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

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

more

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

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

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

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

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

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

more

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

more

4. The 12 percent credit will apply to property placed in service during 1975 and to property ordered during 1975 if placed in service before the end of 1976. The credit will also be available to the extent of construction, reconstruction or erection of property by or for a taxpayer during 1975, without regard to the date ultimately placed in service. Similar rules will apply to investment in electrical power plants other than oil-or gas-fired facilities, for which the 12 percent credit will continue through 1977.

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

A. Administrative Actions.

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

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

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

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

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

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

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

more

(OVER)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1975 Levels)
($billions)

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

*Does not include payments to nontaxpayers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

more

(OVER)

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

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

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

* Less than $50 million.

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

more

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

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

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

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

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

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

-- The increase in import fees would go into effect

- $1 per barrel February 1.

- To $2 per barrel March 1.

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

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

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

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

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

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

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

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

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

Timing of Direct Budget Impact

($ billions)

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

more

(OVER)

INFLATION IMPACT

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

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

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

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

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

more

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

PRESIDENTIAL PROPOSALS OF OCTOBER 8, 1974 RESUBMITTED FOR CONGRESSIONAL ACTION

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

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

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

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

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

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

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

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

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

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

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

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

BACKGROUND

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

With respect to the U.S. energy situation:

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

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

  - Domestic oil production continues to decline as older fields are depleted and new fields are years from production; 8.8 million barrels per day in 1974 compared to 9.2 million in 1973.

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

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

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

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

-- Overall energy consumption is beginning to increase again.

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

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

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

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

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

U.S. ENERGY OUTLOOK

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

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

more

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

NATIONAL ENERGY POLICY GOALS AND PRINCIPLES ANNOUNCED BY THE PRESIDENT

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

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

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

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

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

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

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

more

(OVER)

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

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

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

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

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

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

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

-- Balance environmental goals with energy requirements.

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

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

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

more

ACTIONS ANNOUNCED TODAY BY THE PRESIDENT

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

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

(A) Administrative Actions

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

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

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

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

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

more (OVER)

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

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

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

(B) <u>Legislative Proposals</u>

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

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

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

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

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

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

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

more

(OVER)

installations that had originally planned to convert from coal to oil be eligible for compliance date extensions. It would give EPA authority to extend compliance dates and eliminate restrictive regional environmental limitations. A plant could convert as long as its own emissions do not exceed ambient air quality standards.

II. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET MID-TERM GOALS (1975-1985)

These actions are designed to meet the goal of achieving the capability for energy independence by 1985. The actions include measures to increase domestic energy production (including measures to cope with constraints and strike a balance between environmental and energy objectives), reduce energy demand, and prepare for any future emergency resulting from an embargo.

(A) Supply Actions

1. Naval Petroleum Reserve No. 4 (Legislative proposal) -- The President is asking the Congress to authorize the exploration, development and production of NPR-4 in Alaska to provide petroleum for the domestic economy, with 15-20% earmarked for military needs and strategic storage. The reserves in NPR-4 which are now largely unexplored could provide at least 2 million barrels of oil per day by 1985. Under the legislative proposal:

   (a) The President would be authorized to explore, develop and produce NPR-4.

   (b) The Government's share of production (approximately 15-20%) would be used to help finance the strategic storage system and to help fulfill military petroleum requirements. Any other receipts go to the United States Treasury as miscellaneous receipts.

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

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

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

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

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

more

(OVER)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(B) Energy Conservation Actions

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

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

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

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

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

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

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

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

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

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

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

more

(OVER)

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

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

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

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

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

(C) Emergency Preparedness

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

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

more

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

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

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

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

(c) ration fuels among end users;

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

(e) increase production of domestic oil; and

(f) regulate petroleum inventories.

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

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

more

(OVER)

(A) Synthetic Fuels Program (Administrative) -- The President announced a National Synthetic Fuels Commercialization Program to ensure at least one million barrels per day equivalent of synthetic fuels capacity by 1985, using technologies now nearing commercial application.

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

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

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

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

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

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

NEAR TERM PROGRAM (MMB/D)

	1975	1977
CONSUMPTION IF NO NEW ACTIONS	18.0	18.3
IMPORTS IF NO NEW ACTIONS	6.5	8.0

	IMPORT SAVINGS	
Less Service Savings by Short-term Actions:	1975	1977
Production from Elk Hills	0.2	0.3
Coal Conversion	0.1	0.3
Tax Package	0.9	1.6
TOTAL IMPORT SAVINGS	1.2	2.2
REMAINING IMPORTS	5.3	5.8

MID-TERM PROGRAM

CONSUMPTION IF NO NEW ACTIONS	23.9 MMB/D
IMPORTS IF NO NEW ACTIONS	12.7 MMB/D

Less Savings Achieved by Following Actions:	1985 IMPACT ON IMPORTS	
OCS Leasing	1.5	
NPR-4 Development	2.0	
Coal Conversion	0.4	
Synthetic Fuel Commercialization	0.3	
Auto Efficiency Standards	1.0	
Continuation of Taxes	2.1	
Appliance Efficiency Goals	0.1	
Insulation Tax Credit	0.3	
Thermal Standards	0.3	
Total Import Savings by Actions		8.0
Remaining Imports		4.7
Less:		
Emergency Storage	3.0	
Standby Authorities	1.7	
NET IMPORT VULNERABILITY		0

more

(OVER)

INTERNATIONAL ENERGY POLICY AND FINANCING ARRANGEMENTS

BACKGROUND

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

U.S. POSITION

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

ACTIONS TAKEN BY OIL CONSUMING NATIONS

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

more

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

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

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

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

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

OTHER U.S. ACTIONS AND PROPOSALS

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

more

(OVER)

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

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

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

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

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

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

# # #

WHO TO CALL

WHO TO CALL

If there are questions about the information contained in this book, or if other questions arise, please feel free to call any of the following experts for guidance. If they feel your question would be better addressed by someone else, they will put you in touch with him.

ENERGY

Eric R. Zausner — Phone: (202)961-8233
Acting Deputy Administrator
Federal Energy Administration

Bruce A. Pasternack — Phone: (202)961-6295
Acting Deputy Assistant
Administrator for Policy
Federal Energy Administration

ECONOMIC POLICY

John H. Auten — Phone: (202) 964-5914
Director, Office of Financial
Analysis
Department of the Treasury

TAX POLICY

Frederic Hickman — Phone: (202)964-5561
Assistant Secretary for
Tax Policy
Department of the Treasury