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APRIL 30, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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THE WHITE HOUSE

PRESS CONFERENCE

OF

FRANK ZARB

ADMINISTRATOR

FEDERAL ENERGY ADMINISTRATION

THE BRIEFING ROOM

5:05 P.M. EDT

MR. NESSEN: The President has made his decision on what to do with the expiration of his delay in the extra dollar on the oil import tariff.

The President made his decision and a letter has been drafted to send to the Hill. We have the letters for you but they are held up for just a minute at the mimeograph machine, so they will be handed to you at the end of this briefing.

So you will know what Frank is talking about, he will summarize briefly what the President's decision has been -- since you are trying to do this without having the letters in front of you -- and then he will explain why, and then he will take your questions.

MR. ZARB: The President today decided that he would postpone the imposition of the second dollar tariff that was planned for May 1 for approximately 30 days, and sooner if necessary. He did so based upon his assessment of the progress on the House side to date, which has not been completely satisfactory.

We don't have a bill. We don't have a bill out of committee. But there has been a lot of work done and after receiving a letter from Senator Mansfield asking for delay, and a call from Chairman Ullman, and some others, on hearing the recommendations from his advisers, he concluded that we would hold off approximately another 30 days.

However, simultaneously, he has directed the Federal Energy Administration to begin the process of hearings and public comment on a program to decontrol the price of old oil. The proposition, or the plan, that will be put forward for public comment will be a two-year decontrol program. It will propose decontrol of old oil at the rate of about 4 percent a month, which will have the effect of being completely decontrolled within two years.

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(OVER)

Now, he does that knowing that in the Energy Subcommittee of House Commerce, there is a similar bill working which would have effectively the same conclusion but in a period of 3-1/2 to four years, depending on how some of the details are worked out.

During this period of comment and public hearing, we will be sensitive to what is going on within that committee and at the end of our public comment period, we will publish our final format and submit to the Congress -- Congress will have the last say-so. They have five days in which to override the Presidential action in this area.

The President recognizes the work that has been done by a good many people on the Hill, particularly the House side, both Democrats and Republicans. Chairman Ullman has worked hard to produce a bill. There has been, as most of you who have been participating up there know, some good news and some bad news, as things went.

We are hopeful, still, that the Congress, within a very short period of time -- probably the next month before they go in recess which is late May -- that they will produce a bill and it will be voted on the House floor, and that that bill will be satisfactory to the President.

I probably should go over the points made in the President's letter -- not in exact words because I have not seen the last iteration of the text -- but it points out that a program to be satisfactory to the President must achieve the kinds of conservation targets which he set forward, 2 million barrels a day, by the end of 1977.

It must do so, using reasonable natural market mechanisms, being conscious of the fact that other kinds of approaches could negatively impact the economy and negatively impact on employment. The program must lead to eventual invulnerability by 1985 and that it must have all the elements that are fair to both parts of the country geographically, and different segments of society.

I will take your questions now.

Q Are you suggesting, Mr. Zarb, that you might change the terms of the decontrol proposal depending on what Mr. Dingell's subcommittee comes up with?

MR. ZARB: I prefer to say during this period of hearing and public comment we will be receiving the inputs from lots of people in addition to receiving information with respect to what is being passed on in the Dingell subcommittee. I would think that we would be willing to certainly consider what they come up with as being an important input.

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Q How long will this period of public comment last?

MR. ZARB: The total period, including the five-day comment, can happen between now and the 21st of May. Of course, it depends on the volume of comment, the extent of the hearings, and lots of other things, so I won't say that is specifically the date.

It can happen as soon as that. It could take longer than that, depending on the volume.

Q Would you be very precise? What could happen by the 21st of May?

MR. ZARB: By the 21st of May we can -- it is physically possible to have the hearings completed, the comment in and the final program produced and up before the Congress for their review.

Q Frank, if I understand correctly, you can only get a 90-day extension or 90-day decontrol, then you have to come back to Congress. Is that correct?

MR. ZARB: That is correct.

Q If so, does that mean -- how can you work a two-year program when you have to come back every 90 days?

MR. ZARB: Of course, a couple of things can happen here. The program can be proposed by the President and go before the Congress and be sustained, and we would have to go through that, every 90 days, for the period that we are decontrolling, which would give the Congress continued bite at the apple.

The other thing that could happen is that the work being done by Chairman Dingell and his subcommittee could result in legislation which would provide a legislative base for decontrol, in which case I would think that would moot the every 90-day exercise that is now mandated under our statute.

We are working almost parallel with the committee so it is hard to measure which way it will come out.

Q Mr. Zarb, you said that you were hopeful that within the next month a bill could be voted on the House floor. Does that mean that would be satisfactory to the President, even if there were no Senate action on the bill at that point?

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MR. ZARB: I don't presume to speak for how the President will think at that point. I am speculating a little for you. It will probably get me in trouble, but I will do it, anyway.

If we had a bill off the House floor, which was satisfactory to the President and had every indication that the Senate in its activity was sympathetic to a bill that was passed by a Democratic majority and, on the House side, I think the President would feel that we had made sufficient progress.

On the other hand, if it is a bill that we can't bite off or there is soundings on the Senate side that they could not accept what the House passed, then that would be a separate set of circumstances. It is really hard to give you a sterilized picture of what we would or would not do under certain circumstances, because there are so many moving parts, but that is the best I can do.

Q Is there a 30-day ultimatum?

MR. ZARB: When the President announced the State of the Union Message, we were asked whether the \$1, \$2, \$3 program was an ultimatum, and when we had the 60-day moratorium, we were asked whether that was a 60-day ultimatum.

I will answer the question the same way. The Congress has asked us to delay in the ecumenical spirit of compromise to allow more time for negotiation and discussion to take place.

I think you know I have personally been involved in substantial discussions, both with the House side and now with the Senate side, which seems to be picking up. More than anything, this 30-day period keeps those channels open and gives us every opportunity to come to an accommodation if we are going to come to an accommodation.

It would seem to me that if we are, we are going to have a very clear picture of that potential by the end of this 30-day period. It certainly is not a "throw down the gauntlet" type of thing. It is an attempt to give every chance possible to working out a compromise between the President and between the Congress.

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Q Mr. Zarb, isn't there a danger that the American people, seeing another delay, will have even a lesser sense of urgency about the energy problem as a result of what the President has done?

MR. ZARB: Tom, I think that that probably is a risk. I think our ability to transmit to the American people the real sense of urgency that is present needs to be improved in the first place, even beyond this.

But, I think the American people would rather have the President and their Congress working on solving a national problem with maximum cooperation rather than with maximum confrontation.

So, while there is the downside of that possibility, I think it is worth it in that we are not promoting an immediate confrontation at a time when there is a last hope that we can work out a mutual compromise.

There was a follow-up I missed. Did we cover it?

Q I wondered if this would go on indefinitely.

MR. ZARB: I think a fair answer to that question would be no.

Q Frank, a question on this 4 percent decontrol a month plan that you just mentioned. Now you have had for quite some time this so-called match-barrel provision whereby for every barrel of new oil the producer pumps he gets to free one barrel of old oil from price controls.

My question is, given that existing provision, how much is this really going to be a change as far as freeing old oil from price controls gradually?

MR. ZARB: I guess we will have to get you that later. You are talking about the absolute volume in view of the old oil-new oil? Eric can give that to you, for those of you who are interested in the mathematics, and have it worked out after we are done here.

Q Is that 4 percent per month of each producer's old oil? Is that the way it works?

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MR. ZARB: Of each producer's total old oil production, which would have the effect of not prompting anybody to withhold any production, because if you take the total old oil production, the 4 percent would be the maximum amount he would want to decontrol.

We were worried a little about any scheme that would have the effect of minimizing production, withholding for the next increment. I ought to point out another couple of other things before we all forget them because you have not asked the question yet.

Chairman Ullman has agreed with me, and had some days ago, that if we went this route, or if Chairman Dingell continued to pursue the program that they had before them, that he would put into, or he would ask his committee to put into his bill, an additional title, which would affect the windfall profits program.

We still believe that that windfall profits program is essential. It should be worked out in a way that there is reasonable return on investment so that we can get our Project Independence completed and at the same time guard against excess profitability.

I think Ways and Means, in looking at all the numbers, they will be cogitating on that particular conclusion.

Q Frank, why are you vague about the 30 days? You said 30 days, maybe sooner. Why isn't it some time certain?

MR. ZARB: There are a set of circumstances which could prevail where within the 30-day period the President comes to the conclusion that there just is no hope and therefore, the proclamation has been written with substantial flexibility in giving the President some opportunity to go one way or the other.

One day certain is not always the best way to do this kind of thing because it might take two days longer, or six days earlier he might just reach the conclusion that it just is ridiculous to continue.

Q But Frank, if he does not do anything at the end of 30 days, will that second dollar kick in?

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MR. ZARB: Yes. The proclamation can be rewritten to accommodate things that might occur. I think really it goes to the question that was raised before which I answered with the word no.

The President has no intention of letting this go on indefinitely. He has put out a program. He still believes that program to be the best possible course of action for the Nation. He has not seen an alternative program of a comprehensive nature that matches his program.

He is trying to give every possibility for compromise with the Congress. He has been asked twice now by the leadership to delay imposition. This is the second time he has done it, but he clearly feels that the Nation needs a program and it needs it pretty soon.

Q What is going to happen to the gasoline tilt?

Q What is the earliest date that this first 4 percent would go into effect?

MR. ZARB: I suppose the very earliest would be starting June 1.

Q Mr. Zarb, with the decontrol of old oil, what is going to happen to the price of gasoline at the pump, and when will it happen?

MR. ZARB: It would have the average per gallon effect. You have to understand that the increases that have occurred to date, many of them have not been passed through for a number of reasons, but if all of it were passed through, the average per gallon effect would be 1.25 pennies over the first six months.

So, multiply that times two over the first 12 months, and that gives you the net effect. Remember we said earlier on it results in an average increase of 5 cents, when all decontrol is completed. In this instance, if our program were to prevail at the end of the two-year period, the average would be 5 cents per gallon.

Q So, by the end of calendar year 1975, what might be the change in the price of a gallon of gasoline?

MR. ZARB: One point two five cents per gallon.

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Q Higher?

MR. ZARB: Yes.

Q What is going to happen to the gasoline tilt?

MR. ZARB: That really depends upon how we eventually wind up in configuration with Ways and Means. As you know, Ways and Means has a gasoline tax, and we don't know how that finally is going to look by the time it gets to the floor and after it gets off the floor.

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Q Will the tilt still be alive then in the Administration's thinking?

MR. ZARB: The tilt, as a concept, is alive and what it says is that over the first three-year period, the higher increases should go to gasoline because of the elasticity problem. You undoubtedly know the problems we face with respect to the tilt within the tariff question.

We are addressing those, obviously, and we have kind of withheld moving any further than we have hoping to see a clearer picture of what might come out of Ways and Means.

Q You said that the President would suspend this Executive action decontrol if the House approved, by the end of May, a bill that was satisfactory to him?

MR. ZARB: Wait a minute. No, I did not say that. I said that the President's decision with respect to the second dollar was impacted upon that. His decision with respect to going further with decontrol -- the only place that could come together is if there is a similar decontrol bill that came out of the House and from the Dingell circuit. Then, they could either come together or not.

Q What circuit is that? (Laughter)

Q Your original proposal on the windfall tax was that it would apply both to new oil and the excess revenues from decontrolling old oil. Now that percentage depletion has been repealed for large companies, do you have any different idea as to the design of the windfall tax? Specifically, would it apply only to the decontrolled old oil in your idea of it?

MR. ZARB: All the ground rules are changed. We had proposed a decontrol that was over a shorter time-frame and depletion was in place. Depletion is out and now we are talking about a phase in decontrol. We have to take a whole new look.

I would hope that we could take a whole new look along with Ways and Means; and Ways and Means has always talked about a plowback provision which we are interested in exploring with them in context to a decontrol program.

It is something we are going to have to work out together. I will tell you what our two principles were: first, that nobody in the energy industry has an excess of profit as calculated by reasonable people; and secondly, there is a sufficient return on investment to insure our drive toward Project Independence.

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I think Ways and Means will work with the same kind of principle and that will not be a point of difficulty. I have no sensing that that particular calculation would be difficult between us.

Q What is the latest analysis of the effectiveness of the dollar tariff in cutting imports to date, and what is the maximum we can expect in 1975 if the President went ahead in 30 days?

MR. ZARB: If you are saying the President went ahead in 30 days and sent anything else, with no gasoline tax as proposed by the Hill or anything like that -- well, I really hesitate to give you specific numbers because so much depends upon the state of the economy.

You separate the price effect on reduced consumption from the decline in economic activity and its effect on decline and consumption. The first dollar had an effect of about a penny a gallon and no one believed that that in itself was going to have the kind of elasticity production that we had expected. The President's full program increased gasoline something close to 15 cents a gallon, everything else close to six to eight cents a gallon. Those elasticity points would, along with other measures, get us to where we wanted to be by the end of 1977.

Q In a statement from Commerce recently, the Acting Secretary attributed the favorable balance of payments to the President's tariff program and the cut in imports. I wondered if you had figures to back up on what we had seen in reduction because of this?

MR. ZARB: I could stand here and say it is all because of the FEA Administrator, but I don't. There are a lot of different factors that have gone into the decline in those numbers. One has been just the way the numbers have flopped. Because of the heavy inventories, there is an adjustment. There is a seasonal factor.

Right now, seasonal declines normally occur. There is the economic activity question. We had a milder winter. We have generally higher prices, which have an effect. We have a new awareness that is taking hold slowly, but surely. People are being more sensitive to conservation, and it is kind of a slow process where we see it taking hold, but very slowly.

You can calculate all these things together and you get a total lowering of consumption to some extent. You get a lowering of imports that is out of balance to that because of the high levels of inventories brought on principally because everybody rushed to fill their tanks before the first buck went on.

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MR. NESSEN: Let me interrupt you a minute, Frank.

We said earlier we were going to have the letters that were going up to the Hill available after this briefing. The fact is, they have not been delivered to the Hill yet, so out of Congressional courtesy, we have to wait for them to get there.

Frank has told you what the decision was, and we will have the text of the letters for you as soon as they are delivered and that may be tomorrow morning.

Q Going back to the question, are you also ready to accept a phased decontrol of natural gas?

MR. ZARB: We would certainly be willing to discuss a phase program, but not one that was very long-term. I think the Stevens' bill had a time frame within it which was two years -- I may be corrected by six months or so -- which generally got into the ball park which we could consider.

You recall the difference between these two approaches, which is a subtle difference. The President had proposed to go more quickly, and then to take back the profits in the oil area in the way of windfall tax, and then redeliver that to the economy with middle income and lower income people getting more back than others.

This changes that whole matrix clearly because there is less to take back, and a new determination has to be made by the Congress as to how it goes back into the economy at all. That is going to be a new area of discussion in view of this change in shift.

Q I have a couple of technical points. On the five days for Congress to approve or disapprove decontrol if the President goes with it if he comes out with the decontrol proposal just before Congress recesses, how does that affect a 5-day running period?

MR. ZARB: Congress has to be in session for the five days.

Q So, then the five days would not run until they came back?

MR. ZARB: If we did not get it up there for five days before they came back. It has to be five days in session.

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Q You did not mention it, but what happens to the third dollar increase, which was asked to go into effect?

MR. ZARB: That will be held for a possibility of imposition a month later. It depends a good deal on total circumstances by that time and the form and shape of a bill that may come from Congress. He is going to keep his options with respect to the third dollar.

Q Then this is wide open, depending on what happens to the second dollar and to Congress and everything?

MR. ZARB: I think everything has kind of shifted back a month. The same specter is there. The President still feels awfully strongly about a bill, and I think you ought to know that with respect to his authority to do this, we did have a count on the Senate side, which indicated to me, at least, that his veto would have been sustained.

Q What prompted the decision to go from immediate to phased decontrol?

MR. ZARB: A great sensing on the part of the Congress that there was some virtue in phasing rather than going more immediate and then windfall-profitting the rest of it away. It is a completely different shift in strategy as to the way you get the job done, with the same conclusion.

We preferred to raise the price in a closer period of time and deliver the money back to the economy in the way I just described. I still think that was a better program. The Congress felt very strongly first there should be no decontrol, and then a price rollback.

Then, as we went forward, they began to talk about decontrol and finally came to the position they could accept it if we would consider some form of phase-out, and that is what, after all, compromise is all about, I think.

Q Does the Administration want the Congress to understand that the President will not go ahead and start this decontrol rolling if the House produces acceptable decontrol legislation?

MR. ZARB: I think if the House produces acceptable decontrol legislation, there is no reason for the President to go forward if the Congress would rather have it happen that way. It might be that Congress would rather have it happen in the way I just described and get their own impact on how the program finally comes out during the public comment period. That is a realistic possibility.

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Q Frank, do you see any reason why that period would extend beyond a month or so? How long are you thinking that might take?

MR. ZARB: At the moment, Dick, not having gone through this kind of thing before, I cannot foresee anything that will take us beyond a month, but I would not want you to bang me with this a month from now. I just have not been through it before. I cannot foresee any circumstances at this point which would delay that.

Q You say the first raised gasoline about a cent a gallon. Is that what this second dollar would do also, another cent?

MR. ZARB: That is correct.

Q And the third?

MR. ZARB: Yes.

Q Is there any possibility that we will come up at the end of this month and get another postponement?

MR. ZARB: We have gone from 60 days now to 30 days or less. I would say that only under the circumstances of really imminent legislation, that is going to give us a comprehensive program--such substantial progress to justify it, if those be the circumstances. One of them is Presidential decisions. He hears from his advisers. He looks at his options and he makes his own decisions.

I don't mean to preempt what he will be thinking at that moment in time. I just give you my best estimate.

Q What about the uncertainties in the whole legislative process, the fact that the bill that emerges from the Ullman committee may look very, very different than the bill that finally emerges from Congress.

MR. ZARB: We use one word, and it is called acceptable. If the bill that hits the floor and comes off the floor is not acceptable to the President, then it is clearly not an acceptable arrangement and we will have to go ahead with what we think is right.

An acceptable bill means a bill that is going to get us what we need in our energy objectives, and if it does not meet our energy objectives, we cannot swallow it and tell the American people that they have an energy program when clearly the program that is put forth is not an energy program.

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Q Your recommendations went to the President on Monday. Can you tell us if this is the course of action you recommended?

MR. ZARB: I cannot tell you that. That is one area I don't talk about and won't. I give my recommendations to the President and I just kind of keep those as private discussions. I talk about everything else but that.

I just want to emphasize one other point. There will be those that say that this move will be beneficial to the oil industry. I think long-term it is going to have the effect of getting us our Project Independence. That, in my view, is the best thing that this Nation can do to safeguard the American consumer from wild price increases in the future.

There is absolutely no question in my mind that if we expand our imports over the next three years that the cartel will feel quite free to increase its oil prices above current levels. So, taking moves in favor of independence and invulnerability is the best protection we can give the American consumer.

Secondly, I emphasize we will explore with Ways and Means an appropriate windfall mechanism that would be acceptable to the Congress and acceptable to the Administration.

Q Are you at all concerned about your ability, given all the recent charges about over-charges to the military and over commercial airlines and all this sort of thing? Don't you think you are in kind of a public relations hornet's nest?

MR. ZARB: I guess I don't put the two together. I think my policy has been quite clear. Whenever there has been over-charges that are inviolation of the rules that exist, as long as they exist, they will be prosecuted to the fullest extent. We have started down that program, and I intend to see that it is completed, regardless of what happens here.

If there is a decontrol and a windfall profits mechanism, that is a better safeguard against the devices that can take place between the two-tier system. Keep in mind, when you get two barrels of oil and one is \$5.25 and one is \$11.00, they look alike, they smell alike, they are alike, the opportunity for the thing you just described is increased.

This other arrangement helps to protect against it. Wherever it has existed in the past, and up until the time we no longer have that kind of regulation, those kind of events are going to be prosecuted right to the bottom line.

Last question.

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Q Does the President's proposal do away with released oil --

MR. ZARB: John, technically, is released oil dropped as a part of this mechanism?

MR. JOHN HILL (Deputy Administrator, Federal Energy Administration): No, it is not. We are going to retain that mechanism. This will be over and above. We will have the details out on that.

Q Is the barrel-for-barrel basis the same ratio as it is now?

MR. HILL: That is right. We are not making any changes except in minimumregs to allow this 4 percent expansion each month.

MR. ZARB: When will we have a fact sheet?

MR. HILL: I think we will have a fact sheet sometime tomorrow.

MR. ZARB: We will have a fact sheet tomorrow to give you the total mathematics and total changes.

THE PRESS: Thank you very much.

END

(AT 5:45 P.M. EDT)