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THE WHITE HOUSE

WASHINGTON

June 23, 1975

MEMORANDUM FOR JIM CONNOR
 THROUGH: JIM CANNON
 FROM: MIKE DUVAL
 SUBJECT: ZARB'S MEMO OF JUNE 19

We have briefly reviewed Frank Zarb's memorandum to the President dated June 19, concerning decontrol of old oil. In essence, Frank's recommendation is that the Administration submit to Congress a phased decontrol plan at the same time we receive the enrolled bill extending for six months the Emergency Petroleum Allocation Act of 1973. If Congress does not overturn the President's plan within five legislative days (by a majority vote of either House), then the President would sign the extension of the Allocation Act, thus averting its termination (and with it all price controls and allocation authority) on August 31. The assumption is that Congress could not override a veto of a bill extending the Allocation Act and that the quid pro quo for signing it is acceptance by the Congress of the President's administrative decontrol plan.

I believe there are three points which need to be developed further before this matter is sent to the President for decision:

1. Under the provisions of Section IV (g) (2) of the Allocation Act, any decontrol plan sent by the President to Congress and not overturned by either House, is effective only for ninety days. Thus, even if the scenario in Frank's memorandum is successful, Congress could -- again by a simple majority vote in either House -- overturn the decontrol plan this Fall. I understand that there may be other methods of effecting decontrol, such as by setting the "ceiling price" at the market level (about \$11) but this is a risky

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strategy which may well be overturned by the courts. I think these points should be looked into in greater detail by the Counsel's Office before any decision is made.

If the ninety-day limitation cannot be circumvented, then I do not believe the President should adopt the strategy proposed by Frank because ninety days of decontrol is not worth the political risk that such action entails.

2. There may be some very substantial arguments in favor of letting the Emergency Petroleum Allocation Act expire, over and above de facto decontrol. According to reports from both the independents and the majors, FEA regulations are having a very disruptive effect on the petroleum industry. These criticisms should be looked at carefully before any decision is made concerning the extension of the Allocation Act.
3. There may be alternative ways of minimizing the impact on consumers, if the Allocation Act expires. Besides the possibility of adjusting the import fees, the oil companies might very well respond to Presidential pressure to raise prices only in a phased manner and plowback profits into exploration and development. This "jawboning" approach should be looked at carefully by the Counsel's Office because of potential problems with the anti-trust laws. We have some information that the oil companies may well agree to voluntary restraint in this area, and it could be very effective in keeping prices down to levels comparable to those that would exist if we had phased decontrol under the Act.



FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

June 19, 1975

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

FROM: Frank G. Zarby *[Signature]*
THROUGH: Rogers C.B. Morton
SUBJECT: Next Steps in Decontrol

Background

The two year decontrol plan you proposed on April 30 has been completed. Public hearings have been held and the plan is ready for submission to the Congress. It is our assessment that during the five days in which either chamber has to disapprove such a plan, any action could be prevented in the Senate but the House would probably disapprove the program.

There are two decisions facing us: modification of the substance of your proposal, and the timing of its submission. Phasing decontrol even more gradually, perhaps approaching the four to five year phase out in the Dingell Bill, is not likely to appreciably improve its chances of passage. Also, a further stretch-out of decontrol now will only require further concessions before a final bill is enacted.

The timing issue is most critical and is influenced by several key factors:

- ° The allocation act expires on August 31, 1975, and unless extended all price and allocation controls, including old oil prices, will end immediately.
- ° Congress plans to recess from the end of next week (June 26-27) until July 7 and again for the whole month of August.



- ° H.R. 4035 and S.621, legislation which would extend the Allocation Act for six months and make administrative decontrol more difficult, may go to Conference before the July 4 recess. It could conceivably reach your desk before the July 4 recess, but passage after July 7 is more likely.
- ° The Dingell Bill, which includes five year decontrol, is now being marked up by the full Commerce Committee and is not scheduled to be reported before next week. This process could be considerably delayed and House action will not occur until after the July 4 recess. Tab A summarizes the key provision of the Dingell Bill.

It is our assessment that the probability of getting legislated decontrol before August 31 is very unlikely. The Dingell Bill has a long way to travel, the decontrol provision could be deleted on the floor, and the windfall profits tax may be made so punitive as to make the decontrol package unacceptable. Even after the House acts, rapid or acceptable action in the Senate is even more unlikely.

The Congress will, however, pass a simple extension before the August recess. If signed, it will remove any pressure for the Congress to act affirmatively on decontrol. It appears likely that we could sustain a veto on a simple Allocation Act extension. Hence, without affirmative Congressional action by August 1, and an override of your potential veto, immediate decontrol will result.

The key to achieving phased decontrol is to assure that two things occur:

- ° It is done administratively by the Executive Branch and requires no affirmative Congressional action.
- ° Any extension of the Allocation Act is tied to Congressional acceptance of your administrative decontrol plan.

For this strategy to work, our administrative decontrol program must be before the Congress for five days before you make a decision to sign or veto an extension of the Allocation Act. Secondly, Congress' decision on acceptance or disapproval must be explicitly tied to your decision on vetoing a simple extension. Finally, the Democrats must believe that you will let the Allocation Act expire, unless they accept your compromise decontrol phase out.

If we are forced to allow the act to expire, modification could be made to the import fees to cushion the sudden price impact of decontrol. While other disruptions would occur, this immediate decontrol is still superior to continued controls without phased deregulation.

Recommendations

The decontrol program could be submitted now, but would in all likelihood be rejected. The ERC recommends waiting until after the July 4 recess and then explicitly linking Congressional acceptance of phased decontrol to your signing an extension of allocation authorities. The decontrol plan should probably not be submitted until the extension legislation is about to reach your desk and you have ten days to veto it. Then your decontrol program can be submitted for the five day Congressional review. If the Congress takes no action and phased decontrol goes into effect, you can sign the simple extension. If Congress disapproves your decontrol plan, you can veto the extension. Since it will probably be sustained, immediate decontrol would result. After Congress returns in September, you may wish to renegotiate a new allocation act with phased decontrol.

Enclosure

A faint circular library stamp is visible on the right side of the page, containing the text "LIBRARY" and some illegible characters.

TAB A



H. R. 7014 - Dingell Bill
Summary of Major Provisions and Major Problems

Standby Energy Authorities - Title II(A)

Contains standby rationing, conservation, and international oil allocation authorities.

Problems:

- . Cumbersome requirements for Congressional approval
- . Unworkable antitrust immunity re voluntary agreements
- . Absence of standby emergency allocation authority

National Strategic Petroleum Reserve - Title II(B)

Provides for early and long term storage programs, with adequate authorities once plans are approved and sufficient authorization for 3 years.

Problems:

- . No special fund provision for NPR revenues (even if authorized by other legislation)
- . Either House veto of early storage program and decision to use reserve in emergencies

Oil Decontrol - Title III

Decontrols old oil over the next 5 years provided that windfall profits tax is in place on old and new oil.

Problems:

- . Phase-out too slow
- . Might cost oil companies necessary investment capital -
- . Conditions decontrol on enactment of complicated tax legislation which may never be enacted

Amendments to Emergency Petroleum Allocation Act - Title IV(A)

Extends EPAA indefinitely and adds new provisions, including mandated gasoline shortage.

Problems:

- . Indefinite extension
- . Mandated gasoline shortage
- . Discretionary Federal exclusive oil (imports) purchasing authority

Industrial Energy Conservation - Title IV(B)

Requires FEA to issue non-mandatory industrial Energy Conservation Guidelines with efficiency targets of 15% improvements in each manufacturer category by 1978, and 20% by 1981.

Problems: Duplicates current voluntary program

Fuel Efficiency Standards - Title V(A)

Provides civil penalties for manufacturers and importers, equal to \$50.00 per car manufactured (or imported) times the number of miles per gallon below standard. Standard starts at 18 MPG in 1978 and goes to 27.5 MPG in 1985.

Problems:

Mandatory standards are themselves objectionable, particularly in light of the progress and commitments in the voluntary program.

Labeling - Title V(B)

Requires energy efficiency labels on selected classes of products, and vests all authority in Department of Commerce.

Problems:

Mandatory performance standards are authorized if labeling does not induce production of energy efficient products.

Coal Conservation - Title VI

Extends ESECA authorities and makes additional installations subject to prohibition orders, as requested by Administration.

Problems:

Authorizes loan guarantees for small producers of low sulfur coal.



July 14, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

To reduce our growing dependence on foreign oil, I will today send to the Congress a compromise plan to phase out remaining Government price controls on domestic oil by January, 1978.

During this period of decontrol, a price ceiling will be placed on all domestically produced oil to ensure that American crude oil prices cannot be dictated by foreign oil producers.

By removing these government controls, domestic production of oil will be stimulated and energy conserved. Decontrol and the import fees I imposed earlier will reduce our dangerous reliance on foreign oil by almost 900,000 barrels a day in just over two years.

There is no cost-free way to reduce our dependence on increasingly expensive foreign oil. Although gradual decontrol will result in a price increase on all petroleum products -- less than one and one-half cents per gallon by the end of the year and seven cents by 1978 -- this is a small price to pay for our independence from the costly whims of foreign suppliers.

If the Congress acts on this compromise, on my other proposed energy taxes, including the tax on excessive profits of oil companies, and on the energy tax rebates for the American consumer, then the burden of decontrol will be shared fairly. Our economic recovery will continue. We will be able to protect American jobs.

The problem is -- 60 percent of all domestic production is still price controlled at about \$5.25 per barrel. This price discourages the use of new and more expensive production techniques. It encourages wasteful use of this limited domestic resource.

But the powers I possess under the current law to phase out controls are limited. Either the Senate or the House of Representatives can prevent gradual decontrol from going into effect.

I urge the Congress to accept this reasonable compromise. If it does not, my only alternative to ensure continued progress toward energy independence, will be to veto an extension of the oil price control law which will expire in August.

The plan I propose will gradually lift price restrictions on controlled oil and place a ceiling on all domestic crude oil prices.

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We still have the choice of acting in our own best energy interests instead of reacting to decisions made by foreign countries. We must start thinking of the energy crisis in terms of American jobs, homes, food and financial security.

Our economic well-being and national security depend upon American control of the American economy. We cannot jeopardize the future by avoiding the tough energy choices today. We must pay the price necessary to give us command of our own economic destiny.

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July 14, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

The President's Compromise Oil Decontrol Plan

THE PRESIDENT'S ANNOUNCEMENT

The President today announced administrative actions to gradually decontrol the price of old oil (oil now under federal price controls) over a 30-month period. In addition, the President announced for the same period a ceiling on the price of all uncontrolled domestic oil (other than from wells which produce less than 10 barrels per day which are currently exempted from controls) equal to the price of uncontrolled domestic crude oil in January, 1975, plus two dollars a barrel to account for the import fees already in place. This will be approximately \$13.50.

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

Under the President's plan imports will be reduced and prices will increase gradually, but consumers will receive energy tax rebates. Phased decontrol will thus not impede economic recovery.

BACKGROUND

- The price of old oil is currently controlled at an average of about \$5.25 per barrel, while the average price of new domestic oil is now uncontrolled and is about \$13.00.
- Controlled oil currently represents about 60 percent of domestic oil production. New, released, and stripper well oil account for the remainder.
- Domestic oil production has been declining since 1970 (it is down 11% since early 1973) and is now about 8.4 million barrels per day (MMB/D), a decline of more than 500,000 barrels per day from last year (see chart 1).
- Imports are predicted to average about 6.5 million B/D, but are expected to rise to up to 7 MMB/D by the end of this year, which is about 40% of domestic consumption.
- Imports are expected to grow to an average of more than 7.5 MMB/D in 1977, if no action is taken to reduce demand or increase supply. The added imports in the next two years are expected to come mainly from Arab nations and could double our vulnerability to an embargo (see chart 2).

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- The Emergency Petroleum Allocation Act of 1973, which requires the control of prices and distribution of oil expires on August 31, 1975.
- None of the measures requested by the President almost 6 months ago in his State of the Union Address has been enacted by the Congress.
- The President originally proposed in his State of the Union Address immediate and total decontrol in April, 1975. In response to concerns expressed by some Members of Congress, on April 30, 1975, the President directed FEA to develop a 25-month compromise decontrol plan. The Federal Energy Administration held public hearings on this proposal in May.
- Under provisions of the Emergency Petroleum Allocation Act, either House of Congress has five working days in which to disapprove a decontrol plan by majority vote.

OBJECTIVES OF THE PLAN

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

- Achieve a major reduction in imports by providing an incentive to increase domestic production and by cutting demand through increased conservation.
- Reduce the power of foreign oil cartels to control the prices Americans pay for energy.
- Provide a compromise decontrol plan acceptable to the Congress.
- Remove over a 2-1/2 year period the complex, counter-productive, and administratively burdensome government regulations.
- Eliminate excessive oil company profits and minimize consumer and economic impact by rebating energy taxes.

PRINCIPAL ELEMENTS OF THE PLAN

Today's proposal by the President would gradually remove price controls from all currently controlled oil over a 30-month period beginning August 1 of this year and ending in January 1978. Each month the amount of oil under controls is decreased by an additional 3.3% of a decontrol base production level (which is the average monthly production of old oil during April, May and June of this year).

The 30-month ceiling on prices for domestic crude oil proposed by the President would be equal to the highest price charged for a particular uncontrolled domestic crude oil in the month of January 1975, plus \$2.00 per barrel -- the current import fee -- for a total of approximately \$13.50 per barrel.

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

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The President also announced that along with the decontrol plan, he would urge the Congress to enact his proposed energy taxes including a windfall profits tax with appropriate plowback provisions and to extend the Allocation Act with appropriate modifications to cover this 30-month decontrol period.

IMPACT OF THE PLAN

-- On Prices:

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

End of

1975	-	1¢/gal.
1976	-	4¢/gal.
1977	-	7¢/gal. (Total)

-- On Import Savings:

(barrels per day)

End of	Phased decontrol	--	Phased decontrol and existing \$2 import fee
1975	25,000		175,000
1977	300,000		900,000

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CHART 1

DOMESTIC PRODUCTION OF CRUDE OIL

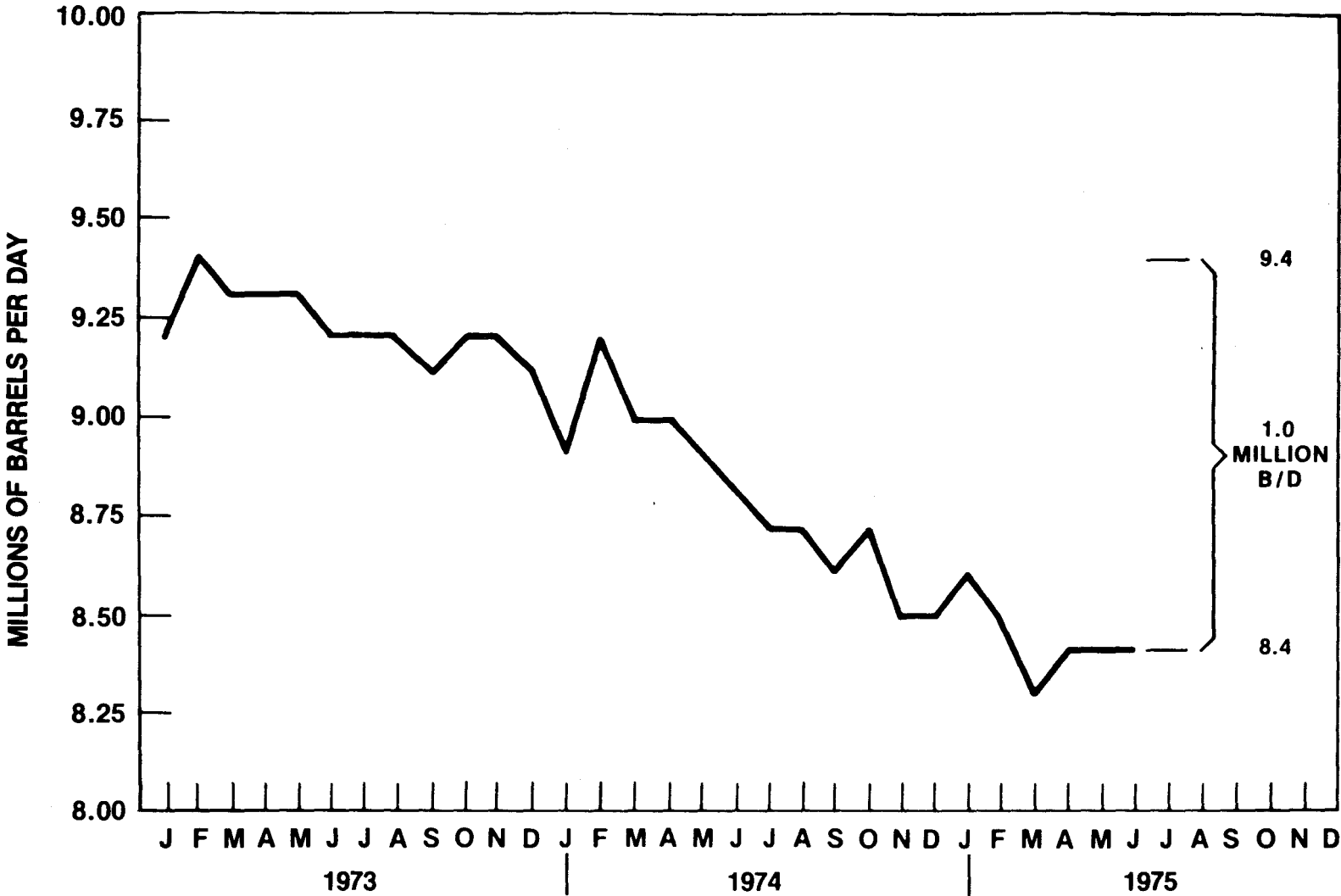


CHART 2

IMPORTS OF CRUDE OIL AND PETROLEUM PRODUCTS

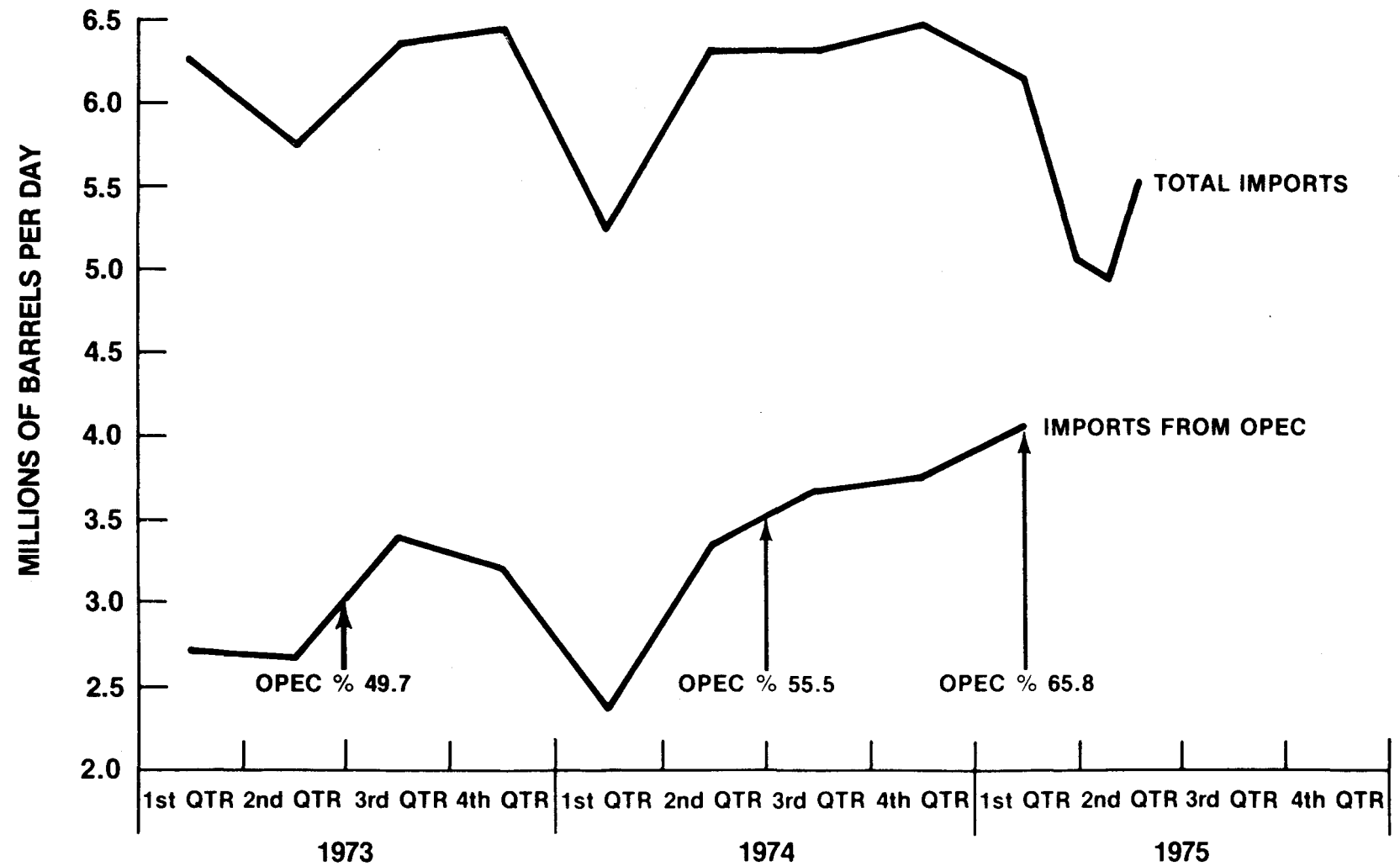
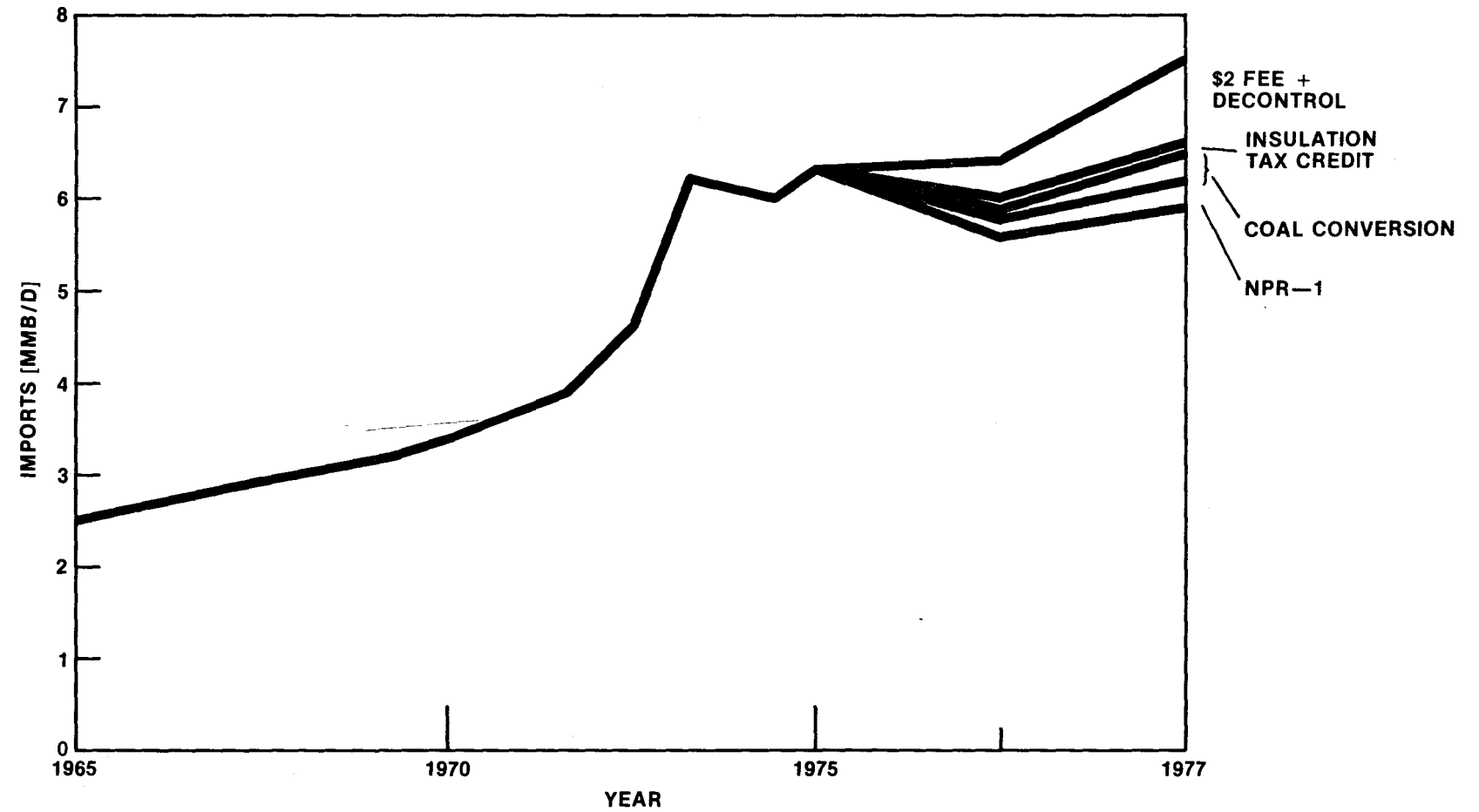


CHART 3

EFFECTS OF PRESIDENT'S PROPOSALS



FOR IMMEDIATE RELEASE

JULY 14, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
REGARDING HIS COMPROMISE
ON OIL DECONTROL

THE BRIEFING ROOM

11:32 A.M. EDT

THE PRESIDENT: I have a short statement I would like to read.

To reduce our growing dependence on foreign oil, I will send to the Congress a compromise plan to phase out remaining Government price controls on domestic oil by January 1978.

During this period of decontrol, a price ceiling will be placed on all domestically produced oil to insure that American crude oil prices cannot be dictated by foreign oil producers.

By removing Government controls, production of oil here at home can be stimulated and energy conserved. Decontrol and the import fees I imposed earlier will reduce our dangerous reliance on foreign oil by almost 900,000 barrels a day in just over two years.

There is no cost-free way to reduce our dependence on increasingly expensive foreign oil. Gradual decontrol will result in a price increase on all petroleum products less than one and one-half cents per gallon by the end of this year, and 7 cents by 1978.

This is a small price to pay for our national independence from the costly whims of foreign suppliers.

If the Congress acts on this compromise on my proposed energy taxes, including the tax on excessive profits of oil companies, and on my proposed refunds to the American consumer to make up for higher energy costs, then the burden of decontrol will be shared fairly, our economic recovery will continue and we will be able to protect American jobs.

MORE

The problem is 60 percent of all domestic production is still price controlled at about \$5.25 per barrel. This price discourages the use of new and more expensive production techniques. It encourages wasteful use of the limited domestic resource.

But, the powers that I possess under the current law to phase out controls are limited. Either the Senate or the House of Representatives can prevent gradual decontrol from going into effect.

This morning, I held a meeting on this subject with the Democratic and Republican leaders of the House and the Senate. It was recognized that this is a very complicated matter. There seems now to be an agreement that the Nation must have both a short-range and long-range solution to energy problems, and as anyone knows who has seriously studied the matter and who is honest with himself, there is no option or alternative available that is free.

I would hope the Congress would give this important matter the very serious consideration that it deserves and not take hasty action.

I will continue to urge the Congress to accept this reasonable compromise. If it does not, one alternative to insure continued progress toward energy independence would be to veto an extension of the present oil price control law, which will expire in August.

But, the plan I prefer will gradually lift price restrictions on controlled oil and place a ceiling on all domestic crude oil prices.

We still have the choice of acting in our own best energy interests instead of reacting to decisions made by foreign countries. We must start thinking of the energy crisis in terms of American jobs, homes, food and financial security.

Our economic well being and our national security depend upon American control of the American economy. We cannot jeopardize our country's future by ducking the tough energy choices today. We must pay whatever the price is that is necessary to give us command of our own economic destiny.

Thank you very much.

QUESTION: Mr. President, did you run into any opposition at the meeting this morning?

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THE PRESIDENT: We had a minimum of opposition. We had a greater understanding of the complexity of this problem. It was a very beneficial meeting in that there was this understanding and recognition that the energy problem had to be faced very squarely if we were to solve the problem of American independence and to get our own house in order so that we could protect ourselves from the vulnerability of foreign producers.

Thank you very much.

THE PRESS: Thank you, Mr. President.

END (AT 11:40 A.M. EDT)

DECEMBER 22, 1975

Office of the White House Press Secretary

File

THE WHITE HOUSE

FACT SHEET

ENERGY POLICY AND CONSERVATION ACT (S. 622)

THE PRESIDENT TODAY:

- . Signed the Energy Policy and Conservation Act, S. 622, which establishes a modified system of crude (oil) price controls that would be phased out in 40 months and provides four major elements of the comprehensive energy legislation he requested last January.
- . Announced that he was removing, effective today, the \$2 per barrel import fee on crude oil that he previously imposed to reduce imports and stimulate action on energy independence legislation.
- . Indicated he was urging Congress to move immediately on other pending energy legislation after its current recess.
- . Directed the Administrator of FEA to take the necessary steps to remove allocation and price controls (other than those on crude prices) from a major segment of the petroleum industry as soon as possible, in order to return much of the industry to a free market.

BACKGROUND

- . In his State of the Union Message last January, the President announced specific goals to achieve energy independence.
- . Also in January, the President proposed comprehensive legislation to conserve energy, increase domestic energy production, and provide strategic reserves and standby authorities to cope with any future embargo.
- . Beginning in February, the President imposed a fee on imported oil to reduce imports and stimulate Congressional action on national energy policy legislation.

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- . During the past year, the President frequently met with Congressional leaders on his proposed energy program. At the request of Congressional Leadership, he delayed implementation of planned import fees and approved temporary extensions in the existing allocation and price control authority in order to give Congress more time to develop acceptable energy legislation.
- . In addition to the new legislation, progress toward the President's energy independence goals include:
 - oil imports are about one million barrels per day less than estimated one year ago, due primarily to conservation actions by consumers and industry and better than expected weather conditions.
 - near final action in the Congress on other Administration proposals, including production from Naval Petroleum Reserves, deregulation of new natural gas prices, establishing thermal efficiency standards for new buildings, and weatherization assistance for low-income persons.

PRINCIPAL PROVISIONS OF THE BILL

The principal provisions of the Energy Policy and Conservation Act (S. 622) are:

- . Pricing Provisions (amends Emergency Petroleum Allocation Act)
 - Under the existing system of price controls, "old" crude oil is subject to an average limit of \$5.25 per barrel, and new oil is uncontrolled.
 - Under the new system, the average price for all domestic crude oil is subject to a composite price limit of \$7.66, which can be adjusted upward. Assuming old oil is controlled at \$5.25, new oil would be controlled initially at \$11.28 per barrel.
 - The \$7.66 composite price can be increased monthly at the President's discretion:
 - . To adjust for inflation.
 - . To provide a production incentive of not more than three percent per year.
- The two adjustments together may not exceed 10% per year.
- In addition, each 90 days following February 1, 1976, the Administration may take steps to adjust upward the 3% production incentive and the 10% overall adjustment limitation. This is subject to disapproval by either House of Congress within 15 days.

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- To continue any production incentive after February 15, 1977, the Administration must make a recommendation to Congress which is also subject to disapproval by either House within 15 days.
- After April, 1977, Alaskan oil can be excluded from the composite price calculation upon a recommendation from the Administration that is not disapproved by either House within 15 days.
- The mandatory control program converts automatically to a discretionary program at the end of 40 months.
- The President is directed to review the current regulatory system and to dismantle as much of the current program (other than crude oil prices) as possible. This includes the price and allocation controls on wholesalers and retailers, which are the bulk of those currently controlled by FEA. Each such deregulation action is permanent, if not disapproved by either House of Congress within 15 days.

Other Provisions

- . The other provisions of S. 622 contain several elements of the President's comprehensive energy program. These include:
 - Strategic petroleum reserves similar to the program proposed by the President. This program will establish storage of at least 150 million barrels of petroleum within three years and up to 400 million barrels in seven years. Although not tied directly to production from the Naval Petroleum Reserve (NPR) #1 (Elk Hills, Calif.), it is expected that NPR legislation now before the Congress will make the important connection between revenues from NPR-1 and the strategic petroleum reserves.
 - Standby energy emergency authorities that provide most of the standby authorities requested by the President to deal with severe energy emergencies that may arise in the future. The President must develop contingency plans in six months, which will be reviewed by the Congress prior to implementation.
 - International energy authorities which are necessary to allow the United States to participate fully in the International Energy Program.
 - Coal conversion authorities to permit the conversion of oil and gas fired utility and industrial boilers to coal. An extension of this authority was requested by the President in January.

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- Appliance labelling provisions that will require appliance manufacturers to provide energy efficiency information to consumers on major appliances and set voluntary energy efficiency targets for the industry.
- Automobile efficiency standards for 1980 agreed to on a voluntary basis earlier this year are made mandatory in this bill. In addition, the bill sets mandatory standards for 1985. These standards will have to be evaluated for technological and economic feasibility, and changes will be submitted to the Congress, if appropriate.

The bill contains several other provisions including:

- General Accounting Office audits giving the Comptroller General authority to audit the records of persons and companies who are now required to submit energy data to the Federal government.
- Industrial energy conservation targets are established for the ten leading energy consuming industries and are to be monitored by FEA.
- Coal loan guarantees providing financial assistance to companies opening new coal mines that cannot obtain credit from private markets.
- Conservation grants to the States to assist in the development and implementation of energy conservation programs.
- Export controls and material allocation authorities to enhance the Federal government's ability to respond to energy emergencies.
- Mandatory conservation standards for Federal agencies to further improve the energy practices of the Federal government.

IMPACTS OF THE BILL

- . The bill will initially reduce the average price of domestic crude oil by about \$1.00 per barrel. This change could reduce retail prices by as much as approximately 1 cent per gallon from today's levels. By way of contrast, immediate decontrol could have raised prices at the retail level by about 5 - 6 cents per gallon.
- . Compared to imports projected under the current price control program:
 - imports probably will increase by approximately 150,000 barrels per day by the end of 1976, due to lower initial prices.
 - imports probably will be about 200,000 barrels per day less after three years, due to future price increases allowed by the bill.
- . Removal of price controls at the end of 40 months should increase domestic production by more than one million barrels per day by 1985 and reduce imports by about three million barrels per day.

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- . Other provisions of the bill will further reduce the Nation's dependency on foreign oil. The automobile efficiency standards, appliance labelling provisions, and extension of the coal conversion authorities could reduce imports by almost two million barrels per day by 1985. The strategic petroleum reserve and standby authorities in the bill will enable the Nation to withstand a future embargo of about four million barrels per day.

NEXT STEPS

- . Current oil price controls will remain in effect until FEA promulgates a rule to implement the new composite price control system. The new rule must be effective no later than February 1, 1976.
- . FEA contemplates continuation of a basic two-tier pricing system for domestic oil with new oil prices high enough to insure adequate incentive for exploration and development of new fields. The final structure of domestic prices will be determined through a rule-making procedure to allow all interested parties an opportunity to express their views on the best pricing program.
- . The price program that FEA envisions for the entire 40 month program, including the monthly application of the price escalators allowed in the bill and the distribution of these escalators among various categories of oil, must be in place by March 1, 1976.
- . FEA will take steps to remove price and allocation controls on those parts of the petroleum industry that are downstream from the refinery, primarily product wholesalers and retailers. The objective of this effort will be to once again allow the marketplace to operate so that consumers are not penalized by an unnecessary regulatory program.

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FOR IMMEDIATE RELEASE

DECEMBER 22, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

THE BRIEFING ROOM

3:09 P.M. EST

The time has come to end the long debate over national energy policy in the United States and to put ourselves solidly on the road to energy independence. We cannot afford continued delay. We cannot afford prolonged vulnerability to foreign producers. We must act.

It is in that spirit that I have decided to sign the energy bill just passed by the Congress. While this bill is only a beginning, it does achieve several major objectives. It opens the way to an orderly phasing out of controls of domestic oil, thereby stimulating our own oil production.

As I requested earlier this year, it will enable us to set up a strategic oil storage system, convert more utility and industrial plants to coal, and take other steps to increase production and promote energy conservation. It makes possible the removal of the oil import fee of \$2.00 per barrel, and finally it provides a foundation upon which we can build a more comprehensive program for the future.

I now ask the Congress to work with me to put into place additional programs essential to achieve energy independence, including immediate Congressional action to deregulate natural gas, to stimulate far greater production.

END (AT 3:10 P.M. EST)

FOR IMMEDIATE RELEASE

DECEMBER 22, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

For nearly a year the American people and many of our friends abroad have been waiting to see whether the Executive and Legislative branches of our government could reach agreement on the basic framework of a National energy policy. It has long been apparent that further delays and indecision would only prolong our nation's vulnerability to foreign energy producers. Since the oil embargo of 1973, we have in fact become more dependent upon foreign oil, and our total payments to foreign producers have continued to increase at an intolerable rate.

The single most important energy objective for the United States today is to resolve our internal differences and put ourselves on the road toward energy independence. It is in that spirit that I have decided to sign the Energy Policy and Conservation Act.

This legislation is by no means perfect. It does not provide all the essential measures that the Nation needs to achieve energy independence as quickly as I would like. However, after balancing the inadequacies and the merits, I have concluded that this bill is in the national interest and should be enacted into law. There are three factors that I have found persuasive in reaching this decision.

First, this bill will enable the U. S. to meet a substantial portion of the mid-term goals for energy independence that I set forth in my first State of the Union address. Among the measures I requested in January which are provided in this legislation are authorities for a strategic storage system, conversion of oil and gas fired utility and industrial plants to coal, energy efficiency labeling, emergency authorities for use in case of another embargo, and the authorities we need to fulfill our international agreements with other oil consuming countries.

Second, the pricing provisions of this legislation, properly implemented, will permit the gradual phasing out of controls on domestic oil. The bill seeks to lower retail prices in the short term and runs the risk of creating a false impression that we can have all the energy we want at cheaper prices. But, over time, this legislation removes controls and should give industry sufficient incentive to explore, develop and produce new fields in the Outer Continental Shelf, Alaska, and potential new reserves in the lower 48 states. I fully intend to use the flexibility which is granted to me by this legislation to expedite the decontrol of crude oil in order to increase domestic production. I do not expect the Congress to stand in the way of such actions.

(MORE)

I know there are some who fear that this legislation could mean that the energy industry will be subjected indefinitely to governmental controls which would create further distortions and inefficiencies. As one who believes that minimizing governmental interference in the marketplace is essential to a strong economy and more jobs, I share those concerns. Accordingly, I pledge that I will work to ensure that by the end of 40 months, governmental controls over domestic oil prices will be fully phased out. We will begin immediately, as authorized by the legislation, to remove all current price and allocation regulations except those on crude oil prices.

Third, I am also persuaded that this legislation represents the most constructive bill we are likely to work out at this time. If I were to veto this bill, the debates of the past year would almost surely continue through the election year and beyond. The temptation to politicize the debate would be powerful, and the Nation could become further divided. This most responsible action now is to set the best course we can and stick to it.

On balance, therefore, I find that this legislation is constructive and puts into place the first elements of a comprehensive national energy policy. It permits me to remove the two dollar per barrel oil import fee. It provides a foundation upon which we can build together toward our goal of energy independence.

Now we should move forward to complete the legislative tasks I set before the nation last January. Specifically, we still need natural gas legislation to deal with immediate shortages and to increase our supply of natural gas over the long run. The only solution is to deregulate the price of new natural gas. The Senate has acted favorably on such legislation. I urge the House to act expeditiously so that, by the end of January, deregulation of the price of new natural gas will have become law. But this isn't the only new legislation we need. For example, our nation needs prompt Congressional action to permit production of oil from the Naval Petroleum Reserves, to ensure greater energy efficiency in our homes and buildings, to stimulate the commercial development of synthetic fuels and to permit greater use of nuclear power for generating electricity. I will continue to press in 1976, as I have done in 1975, to see that all these programs and other elements of my comprehensive energy programs are enacted. Having now built a foundation, we must maintain our determination to achieve energy independence.

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STATEMENT BY TEODORO MOSCOSO, ADMINISTRATOR
ECONOMIC DEVELOPMENT ADMINISTRATION
OF THE
COMMONWEALTH OF PUERTO RICO
at the
FEDERAL ENERGY ADMINISTRATION HEARINGS
regarding
THE ENTITLEMENTS PROGRAM

March 2, 1976

Mr. Chairman, members of the panel. My name is Teodoro Moscoso. I am Administrator of Puerto Rico's Economic Development Administration (known as "Fomento"). Fomento is the agency of the Commonwealth Government responsible for carrying out Puerto Rico's industrialization program, our chief weapon in the long, hard struggle against our greatest enemy - unemployment, and its close companion poverty.

The purpose of my testimony today is to urge the Federal Energy Administration to treat naphtha imported into Puerto Rico as crude oil for purposes of the entitlements program. Such treatment is essential to the economic viability of the Puerto Rican petrochemical industry and thus to the economy of Puerto Rico.

The development of the petrochemical industry in Puerto Rico began in the 1950's with the active support of the Federal Government and the Government of the Commonwealth as a stimulus to growth of our economy. To understand the

critical importance of the questions you face today, some background facts are necessary.

First, Puerto Rico is a small, poor, overcrowded Island. And the combined pressures of inflation and recession have been profoundly damaging to the economy of Puerto Rico. The economy is far less developed than in the mainland United States. Puerto Rico's land area is 3,435 square miles which consists mainly of mountainous terrain with limited agricultural lands and few exploitable natural resources. The population density is 920 persons per square mile, exceeding that of Japan, India, China and other overpopulated countries. The overall level of skills of the work force is still restricted.

Second, unemployment has been serious and chronic. During Puerto Rico's most successful growth periods, its unemployment has far exceeded the present U.S. recession rate of 8% unemployment. Due to recessionary conditions now plaguing Puerto Rico, this past January unemployment reached 21.9% as computed by traditional statistical methods, although this figure substantially understates the real problem. Taking account of those many individuals who for prolonged lack of a job no longer search for one, a more realistic estimate of unemployment would be approximately 40%. An alarming indication of this condition was the 15.2% decline in the industrial work force in the 12 months ended June 30, 1975.

... Third, average income levels and other measures of living standards in Puerto Rico are far below comparable figures for U.S. or for any area of the U.S. Puerto Rico's per capita income level of \$1,986 is about 38 percent of the U.S. average and only 54% of that for Mississippi, the lowest ranking state. The 1970 census reported that 60 percent of Puerto Rican families lived below the U.S. "poverty threshold", as compared with about 10th percent in the mainland U.S.

Fourth, despite high unemployment and severe poverty, inflation has been rampant. This is largely due to Puerto Rico's dependence upon imports for 75% of all goods consumed. Eighty percent of these imports are from the U.S. We are over 99 percent dependent on foreign petroleum for all energy and feedstock requirements. In fiscal years 1974-1976 our annual inflation has averaged 20% or more with the burden inevitably falling upon consumers. In absolute terms, the prices of food, durable goods and other consumer products in Puerto Rico are higher than prices for such products on the U.S. mainland.

Against these conditions, which persist in spite of all the progress we have made during the last 25 years, you will readily understand our extreme concern with the health of our petrochemical industry.

To date \$1.8 billion, or 20% of total capital investment in Puerto Rico is in "core" facilities which produce the

basic building blocks of the petrochemical industry. This industry employs approximately 7,000 people directly and 21,000 people indirectly in support operations. The payroll and associated tax revenues are vital to the people and Government of the Commonwealth.

The petrochemical industry in Puerto Rico forms an important part of the overall U.S. petrochemical industry - particularly the "independent" sector thereof. Puerto Rico has about 9% of total U.S. basic ethylene-propylene petrochemical capacity and 11% of domestic benzene capacity. Commonwealth Oil Refining Company, CORCO, has the world's largest aromatics plant in Puerto Rico. Union Carbide has approximately 11% of its assets invested in Puerto Rico and has the single largest carbide petrochemical complex on the Island. PPG has a vinyl chloride monomer plant in Puerto Rico. Historically, 90% of the local production of "basic petrochemicals" has been shipped to the mainland. Of particular significance to total U.S. supply are the Puerto Rican contributions of propylene - 10.4%, benzene - 11.1%, ethylene glycol - 23.5% and ethylene oxide - 9%. (Based on 1973 consumption figures.) Substantial quantities of ethylene, butadiene, para-xylene, vinyl chloride, phenol, and toluene are also shipped to the mainland.

From the outset, development of the Puerto Rican petrochemical industry has been based on the availability of foreign feedstock, primarily naphtha from the Caribbean. Decisions made by the Eisenhower and Johnson administrations under the Mandatory Oil Import Program conferred, and intentionally so, a feedstock cost advantage to support Puerto Rican petrochemical operations. This was a deliberate Federal policy so that we could overcome other disadvantages such as the cost of transportation - and have an opportunity to compete. This was consciously done in order to provide low cost foreign naphtha in sufficient volumes to promote expansion of employment in Puerto Rico through development of the petrochemical industry. In the mid-1960's the Mandatory Oil Import Program was modified to assure long-term quotas of foreign naphtha to be used as feedstock in Puerto Rican plants. The feedstock cost advantage from these quotas was essential to offset the high risks associated with making substantial capital investment in the under-developed Island economy, and to offset the higher cost of shipping in U.S. flag ships as required by the "Jones Act." The Commonwealth Government also encouraged petrochemical plant investments by granting long-term tax exemptions. These arrangements were solemnized in three-pa

contracts between the Department of Interior, the Commonwealth Government and the private company agreeing to make the investment. This was essential since government policy was obviously critical to the private company's decision to invest. Under these policies, the Puerto Rican petrochemical industry was able to compete, and enjoyed rapid growth until the Arab Oil Embargo and the consequent four-fold increase in the cost of foreign crude oil and feedstocks. These events turned upside down the key assumptions on which these governmental policies and private investment decisions were made.

Today, because of the large disparity between foreign and domestic oil prices, the Puerto Rican petrochemical industry is severely disadvantaged - in 1975, it operated between 47-70% of capacity. The recently enacted Energy Policy and Conservation Act placing a \$7.66 ceiling on domestic crude will continue this price disparity. The FEA apparently intends this disparity in crude oil feedstock costs be "equalized" for all domestic refiners by the entitlements program. Considering the mix of domestic and foreign crude consumed in the United States, the "equalized cost" of domestically run crude oil is \$9.90 per barrel, or \$3.10 less than the landed cost of foreign crude. But the

entitlements program does not equalize feedstock costs of the Puerto Rican petrochemical industry which must buy foreign naphtha reflecting foreign crude oil prices. Yet, our industry competes in the U.S. mainland petrochemical market with mainland producers which either use domestic naphtha made from crude oil, the price of which is adjusted by the entitlements program, or natural gas and domestic propane and butane for which the FEA first sale price is essentially limited to increases in natural gas prices.

Other FEA actions have also impacted adversely upon the Puerto Rican petrochemical industry. The cost of residual fuel oil to our Water Resources Authority, the sole producer of electricity in Puerto Rico, has increased more than 400% since May 1973. This increase is more severe than that experienced by any other U.S. mainland utility. By last fall, the cost of a barrel of residual fuel oil in Puerto Rico was ranging at least \$1.00 per barrel in excess of residual fuel oil of comparable quality and sulphur content sold to other U.S. utilities. This high cost of electricity is particularly harsh on the petrochemical industry which is characterized as energy intensive and which located in Puerto Rico partly because of the relatively low power cost. In terms of competitive viability, the power cost problem is worse than that

reflected by comparing the cost of residual fuel oil in Puerto Rico vis-a-vis the United States. The bulk of the domestic petrochemical production in the United States is located in the Gulf Coast where electric utilities have had access to either natural gas or domestically produced residual fuel oil for boiler fuel. The unit cost of electricity used in the petrochemical industry in the Gulf Coast is approximately one-third of the unit cost in Puerto Rico. It now appears these Gulf Coast utilities can and will turn to coal for boiler fuel in the future, thereby continuing the power cost advantage of our mainland competitors.

The Puerto Rican petrochemical industry is further disadvantaged by the transportation cost differential. The Jones Act requirement that shipments to the U.S. from Puerto Rico be via U.S. flag ships presently imposes a cost penalty of approximately 55-60 cents per barrel on Puerto Rican petrochemicals shipped into the U.S. market.



We believe the Emergency Petroleum Allocation Act of 1973 and the Energy Policy and Conservation Act of 1975 require prompt action by the FEA to remedy these conditions. The very low level of present utilization of petrochemical capacity in Puerto Rico, 47-70% - shows that our petrochemical industry is disadvantaged and its competitive viability is in severe jeopardy. If action is not taken Puerto Rico faces at least another forty months of a federally imposed competitive disadvantage. Congress has effectively told the FEA to take action to assure "preservation" of "an economical sound and competitive petroleum industry including the petrochemical sector" and to assure "equitable prices for all petroleum products to all users." Moreover, the present feedstock cost disparity threatens "severe market disruption" in the Puerto Rican economy as well as domestic petrochemical industry of which the Puerto Rican industry was made an integral part by conscious federal policy. Also, to the extent these plants are run at minimum capacity in order to minimize loss caused by the feedstock disadvantage, the situation defies "economic efficiency" objectives laid down by Congress.

The proposed solution, to treat naphtha used as a feedstock in Puerto Rico as crude oil for purposes of the

entitlements program, will help eliminate the competitive disadvantages being confronted by the Puerto Rican petrochemical industry.

We will supplement this statement with a more detailed submission on the need to extend the entitlements program to naphtha. The Commonwealth will also submit written comments supporting the proposed modification to allocate "upper tier" crude thus more fully equalizing crude oil costs to refiners which depend solely upon foreign crude oil. Puerto Rico also supports the proposal to issue product entitlements for residual fuel oil. However, we submit that residual fuel oil entitlements should be extended to include imports made directly by public utilities such as the Water Resources Authority, which generates all the electricity in Puerto Rico.

This completes my oral presentation. Thank you for your time and attention.

THE WHITE HOUSE
WASHINGTON

April 1, 1976

TO: GLENN SCHLEEDE
FROM: JENNIFER MORGAN

Anything here significant for Cannon to note?

TO: JENNIFER

FROM: SCHLEEDE

Mr. Cannon should, as a matter of general information, be aware that there has been--over the past 4 months-- a sharp drop off in domestic drilling for oil and gas. This point is covered on the first page of the BEA report.

There is attached a copy of a Q&A we've done for the President's briefing book that comments on this problem.

MAR 29 1976

, Date: _____

Office of the Administrator

To: Jim Cannon

For your information.

Frank Zarb

Federal Energy Administration

Room 3400

Ext. 6081

DROP OFF IN DRILLING ACTIVITY

Question

Have you noticed that drilling activity has fallen off sharply in recent months? What are you going to do to restore the incentives needed to turn this situation around?

Answer

It is true that drilling has fallen off by approximately 15 percent since the first of the year, sharply reversing the upward trend in domestic drilling activity that began in April of 1973.

Prior to the Arab embargo it was normal for drilling activity to drop off in the first three or four months of each year, so the recent drop off may in part be a normal seasonal change.

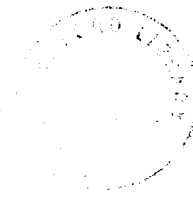
However, the drop off is more likely due to two factors:

- The repeal of the oil depletion allowance, and
- Congressional insistence on rolling back crude oil prices and limiting of crude oil price increases over the next three years.

We must provide incentives for drilling and producing oil and I intend to exercise, to the fullest extent, my authorities under the Energy Policy and Conservation Act by proposing to Congress regulations which would increase the allowable domestic prices for oil produced from new wells.

I am very hopeful that the Congress will also begin to recognize the need for reasonable incentives and go along with the proposed regulations.

GRS
4/6/76



FEA ENERGY HIGHLIGHTS, WEEK ENDING MARCH 19, 1976

PETROLEUM

Weekly Petroleum Statistics (000's B/D)

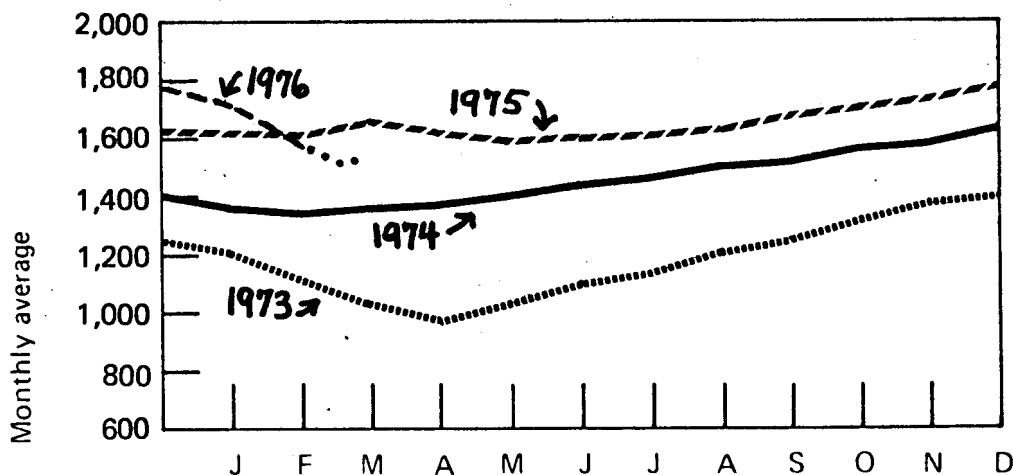
	Wk Ended 3/12/76	4 Wks Ended 3/12/76	Wk Ended 3/14/75	4 Wks Ended 3/14/75
Total Demand	17,899	17,655	15,789	17,078
Distillate	3,678	3,457	3,154	3,538
Residual	2,692	2,832	2,192	2,678
Mogas	6,716	6,683	6,360	6,402
Total Imports	8,196	7,692	5,183	6,044
Crude	5,756	5,297	3,325	3,860
Product	2,440	2,395	1,858	2,184

(N. Kawin, 347-4101)

Rotary Drilling Rig Activity Declines

The number of rotary rigs drilling for oil and gas has declined significantly since December 1975, when rig activity was at a 14-year high (see chart below). The rig count for the 4 week period ending March 19 averaged 1,543, down 250 rigs (13.9 percent) from December. Although a decline is normal during the first few months of a year, the number of rigs operating during February and March 1976 averaged 4.0 percent below the number operating during the corresponding period in 1975, the first year-to-year decline in 3 years.

Rotary Rigs in Operation



(J. Gaynor, 961-8607)

Latest Figures Show Oil Imports at All-Time High

Imports of crude oil and petroleum products reached an all-time high of 8.2 million barrels per day for the week ending March 12. While undue importance should not be attached to the figures for a single week, the 4-week average was 7.7 million barrels per day, an increase of 1.6 million over the comparable 1975 level.

(C. Dwyer, 961-8183)

NATURAL GAS

Texas Eases Ban on Gas for Boiler Fuel

In response to a petition by 2 dozen utility companies in the State, the Texas Railroad Commission modified its December order prohibiting new sales of over 100,000 cubic feet per day of gas (for companies burning it as a boiler fuel) to permit sales of as much as 3 million cubic feet per day.

(J. Mc Carrick, 961-8413)

For First Time FPC Denies Transportation for Customer Buying Direct

The Federal Power Commission, for the first time under its Order 533 policy, denied applications by pipeline companies to transport gas which industrial customers would buy directly from a producer. Rejected were filings by Columbia Gas Transmission and Transcontinental to transport up to 220 Mcf per day, from West Virginia for use in North Carolina. A December 1975 FPC staff report indicated that 75¢ per Mcf was the highest price paid in the West Virginia region under new as well as renegotiated contracts during the January through June period. Therefore, the FPC concluded that the sale at the proposed price of \$1.50 per Mcf "would create upward pressure on both interstate and intrastate prices in this region and that the public convenience and necessity would not be served by certification."

(J. Mc Carrick, 961-8413)

NUCLEAR

AIF Preparing Decommissioning Cost Study

The Atomic Industrial Forum has nearly completed its year-long study of nuclear powerplant decommissioning costs. Accounting for safe radiation product decay periods, a reactor decommissioning may last between 150 and 200 years and cost approximately \$20 million (constant 1975 dollars), including annual surveillance costs. Heretofore, no such costs have been included in the financing of nuclear plants.

(A. Reynolds, 964-6186)





FOR IMMEDIATE RELEASE

APRIL 5, 1976

FEA PUBLIC HEARINGS SCHEDULED IN PUERTO RICO

Puerto Ricans will have the opportunity to present their views on the future of Federal Energy Administration regulations as they affect the Commonwealth at public hearings this month, FEA Administrator Frank G. Zarb announced today.

The hearings are scheduled for 10 a.m. Monday, April 12, in the eighth floor conference room of the North Building in Government Center, Las Minillas, Santurce, P. R., and will be continued on Tuesday, April 13, if necessary.

"Because the economy of Puerto Rico is substantially different from the mainland United States," Zarb said, "we seek comments on all aspects of allocation and pricing regulations." He noted that FEA has delegated some allocation authorities to the Governor of the Commonwealth, and conducted pricing hearings there in 1974.

Among specific topics on which testimony is sought are:

-- Impact of the possible removal of petroleum product allocation and price regulations if they are determined to be no longer useful or appropriate, as contemplated in the Energy Policy and Conservation Act (EPCA).

-- Impact of FEA's regulations on the competitive position of Puerto Rico's petrochemical industry, including the high prices of imported naphtha.

-more-

E-76-09]

04572,07808

-- Whether pricing regulations should continue to consider Puerto Rican marketing subsidiaries of mainland U.S. refiners as part of their parent firms, or should be amended to treat them as resellers.

-- Appropriate treatment of the Commonwealth's \$2 per barrel import tax on crude oil and certain petroleum products.

Requests to testify at the hearings should be directed either to Executive Communications, FEA, Room 3309 Federal Building, 12th and Pennsylvania Avenue, N.W., Washington, D.C. 20461, or to the Office of Oil Allocation, 4th Floor, North Building, Government Center, Las Minillas, Santurce, P. R. 00940. Deadline for receipt of requests is April 7.

Written comments will be accepted until 4:30 p.m. April 14 at Box GB at the same Washington address, or at the Office of Oil Allocation, P.O. Box 41059, Santurce, P. R. 00940. Fifteen copies should be submitted in an envelope designated "Allocation and Price Regulations in Puerto Rico."

-FEA-

Media Inquiry: 964-4781
Press Room: 961-8546

Contact: Allen Hoffard

copy to Cannon
sent 4/13-KNC

THE WHITE HOUSE

WASHINGTON

April 12, 1976

MEMORANDUM FOR: JOHN HILL
FROM: GLENN R. SCHLEEDE
SUBJECT: OIL POLICY AND PUERTO RICAN DEVELOPMENT

Recently, I had a visit from some Union Carbide people who are concerned about the cost of feedstocks for their petrochemical plant in Puerto Rico. They left copies of testimony on the matter of concern given by Union Carbide and by Teodoro Moscoso of Puerto Rico.

I told them that their problem apparently involved FEA regulatory responsibilities and, therefore, they should take up any such issues with FEA. They were aware of the hearings that FEA has scheduled in Puerto Rico (announced in your April 5 press release) and apparently planned to appear.

They made two points extending beyond their business interests that are outside your regulatory responsibilities which seem to warrant a further check:

1. They claim that the oil import program, as it evolved over the past ten years, had as one of its goals the promotion of economic development of Puerto Rico, and that considerable investment in Puerto Rico was predicated on this program and its well recognized objectives.

They contend that current oil import, allocation and price control programs work to retard economic development in Puerto Rico, and, further, that they believe current programs have been formulated (a) without serious consideration of either past policy with respect to economic development of Puerto Rico or (b) without a firm policy basis as to future economic development.

2. They also question whether there is now in FEA (or elsewhere) an individual or office that has the responsibility for considering the economic impact on Puerto Rico of Federal petroleum programs. They indicated that, when the old oil import program was located in Interior, some person or group was specifically concerned with impact on Puerto Rico. They have found no such person in FEA and believe that there should be such arrangements.

This is a matter which is well outside my primary area of concern. I would appreciate it, however, if you would look into the situation and see whether there are problems that warrant further attention.

Thanks.

cc: Steve McConahey

Before the
FEDERAL ENERGY ADMINISTRATION

STATEMENT OF UNION CARBIDE CARIBE, INC.
ON REEVALUATION OF THE MANDATORY
PETROLEUM ALLOCATION AND PRICE REGULATIONS,
FEBRUARY 19, 1976

Mr. Chairman, I am Alex T. Ragan, President of Union Carbide Caribe, Inc., a subsidiary of Union Carbide Corporation with principal offices located in Hato Rey, Puerto Rico. Appearing with me is Richard C. Perry, Manager of Energy Policy for Union Carbide Corporation.

Union Carbide Caribe, Inc. has carried on petrochemical operations at Penuelas, Puerto Rico since 1959. In the late 1960's Caribe planned a major expansion of those operations, and in October 1971 the expanded Penuelas plant came on stream, rated at 775 million pounds ethylene annual output. The plant represents an investment in excess of \$350 million and, during times of full production, employs more than 1500 people.

Caribe's expanded Penuelas plant is an integral and vital part of Union Carbide Corporation's overall petrochemical business. It was

planned and built to enhance Union Carbide's competitiveness in the world trade of petrochemicals during a period when foreign producers were capturing an increasing share of world markets, including increased market share in the U.S. Puerto Rico, rather than a mainland U.S. site, was chosen as the place for expansion because of advantages then accruing to Puerto Rico-based enterprises in furtherance of the economic development and national security objectives of both the U.S. government and the Commonwealth government. Unfortunately, however, those advantages have now disappeared and, instead, have been replaced by competitive disadvantages arising out of the radically changed conditions of world trade of petroleum, as well as U.S. energy allocation and pricing policies.

With those changed conditions in mind my statement today is essentially addressed to two of the six matters listed for discussion by FEA in the Federal Register notice of hearings, dated January 30, 1976. These two matters are:

- an equitable and proportionate distribution of costs among all refined products;
- a review of the mandate to allocate on an equitable basis between regions, giving due regard to historical patterns rather than to create preferences between regions without reference to historical patterns.

In discussing these matters it should be noted for the record that Union Carbide Caribe, individually and in concert with other Puerto Rico-based petrochemical producers, has frequently appeared before or

communicated with FEA, as well as other government agencies, to speak out about the changing competitive climate in Puerto Rico in recent years. This is not a new or unknown problem. Only its current manifestations are new. In February 1975 we testified twice before FEA in connection with the administration's proposed program to reduce imports of crude oil and petroleum products. In May 1975, together with other members of the so-called Puerto Rico Petrochemical Group, we submitted to FEA a study prepared by Arthur D. Little, Inc. entitled "Competitive Cost Position of the Puerto Rican Petrochemical Industry." In July 1975 we wrote a detailed letter to FEA in connection with an FEA study of the effect of U.S. energy policies on petroleum-based operations in Puerto Rico. This letter was followed up by various meetings and discussions to provide specific data requested by the FEA staff.

Thus, we are not new in appearing before cognizant government authority to identify changes associated with our Puerto Rico petrochemical operations; and in each such appearance we have consistently advanced the same basic theme: Federal energy policy should take into account the unique status of Puerto Rico in such manner as not to disadvantage petrochemical producers located there vis-a-vis either foreign producers or U.S.-based producers and not to frustrate the original objective of promoting the economy of Puerto Rico. I should add that in this effort we have had the support and cooperation of the Commonwealth government and the

Commonwealth Economic Development Administration, and I have no doubt that Commonwealth authorities would endorse Caribe's statement today.

Despite our numerous representations, however, and those of others -- including the Commonwealth government -- we are not yet aware of any acknowledgement or assessment by FEA of the part their policies play in accentuating Puerto Rico's competitive disadvantage, nor of FEA's recognition of this problem in the administration of its petroleum allocation and pricing programs.

1. Equitable and proportionate distribution of costs
among all refined products

Caribe's Penuelas plant uses petroleum-based naphtha as its petrochemical feedstock* -- over 90% of it imported from foreign sources. When the world price of crude oil rose above the level of regulated oil prices in the U.S. beginning in 1973 Caribe's feedstock cost advantage (which helped offset other higher costs of producing in and shipping from Puerto Rico) with respect to U.S.-based petrochemical producers was wiped out and, in fact, became negative.

Passage of the Federal Energy Policy and Conservation Act of 1975, together with related oil and natural gas regulatory developments,

* Union Carbide's Taft, Louisiana petrochemical plant also uses naphtha as a feedstock. The Company's other U.S. petrochemical plants use natural gas liquids, or "light" feedstocks, as does most of the U.S.-based petrochemical industry.

promise not only to continue but actually to further diminish the competitive viability of those petrochemical operations in Puerto Rico which use foreign naphtha as raw material. The following factors contribute to this detrimental result:

- (a) in the U.S. the \$2.00 per barrel import fee on crude oil has been removed and a rollback of domestic crude oil price mandated. These actions will reduce the ceiling prices for petroleum products in the U.S., including propane, butane, and naphtha used as petrochemical raw materials;
- (b) in addition, depending on administrative determination, the price of ethane -- another major petrochemical raw material -- can be put under control and rolled back;
- (c) at the same time, naphtha from world sources, imported and used in Puerto Rico as petrochemical raw material, will continue to have its price determined by global supply/demand influences, not by U.S. regulatory policies;

- (d) the U.S. "entitlements" program, which is designed to spread the benefits of petroleum price controls across the country, does not now extend to those who import naphtha and other petroleum products;
- (e) these regulatory conditions will not be of limited duration, but will continue for at least 40 months, subject to refinement and adjustment.

A number of administrative interpretations will have to be made before the final regulatory details affecting the specific magnitude of Puerto Rico's disadvantage can be measured and projected. There is no question, however, that so long as U.S. crude oil prices are controlled at a level below world oil prices the combination of the foregoing circumstances leads to a continuing and accentuated competitive disadvantage for those who use imported petroleum products as raw material relative to their integrated competitors who import and process crude oil, and relative to those competitors who use domestic natural gas liquids as raw material.

Given these circumstances, we think it sounder national policy gradually to decontrol the price of U.S. crude oil and eliminate the

differential with world prices. But until that equalization comes about, we conclude that to restore a reasonable degree of equity requires -- at minimum -- inclusion in the U.S. "entitlements" program of those imported petroleum products used as feedstocks in the manufacture of petrochemicals. We believe that the inclusion of such petroleum product imports in the program will have no detrimental effect on the operation and construction of petroleum refining capacity in the U.S. and Puerto Rico.

2. Allocation on an equitable basis between regions

To the extent that the entitlements program can be considered an "allocation" within the meaning of the statute and regulations we believe that inclusion of imported petrochemical feedstocks in such a program would constitute regional equity for Puerto Rican producers. The same particular considerations that we spoke to earlier in this statement make a compelling case for recognition of the regional differences that affect competitiveness, mainland U.S. versus Puerto Rico. If naphtha were to become an "entitled" refined product, Puerto Rican petrochemical producers would come much closer to competitive parity with those U.S. integrated refiner-producers who use petroleum products as their petrochemical feedstock.

In conclusion let me state that the competitive viability of our Puerto Rican petrochemical operation is of highest priority concern throughout

the Union Carbide organization. We are sure that other Puerto Rico-based petrochemical producers are similarly concerned. Accordingly, we appreciate the opportunity to participate in this hearing and to answer any questions which our statement may elicit.

THE WHITE HOUSE
WASHINGTON

June 12, 1976

Emergency (Oil)
6/18/76
INFORMATION

MEMORANDUM FOR: JIM CANNON
FROM: GLENN SCHLEEDE
SUBJECT: INFORMATION ON A DEVELOPING PROBLEM ON
SALE OF OIL FROM ELK HILLS NAVAL
PETROLEUM RESERVE

*Glenn was 7
why go late?
FEA Jun*

This memorandum is just to alert you to a problem that is developing with respect to the recent auction sale of oil from NPR #1 at Elk Hills. Navy, FEA and Justice are working on the problem and I see no need at present for White House involvement.

- . Production and sale of oil from Elk Hills was authorized and directed by the Naval Petroleum Reserves Act signed by the President on April 5, 1976.
- . Navy advertised for bids and then held its auction on May 26. No bids were received on about one-third of the oil. Bids received apparently varied widely.
- . As required under the law, bids have been sent to Justice Department for review before they are accepted. They were sent about June 2 and Justice has up to 30 days to act.

The developing problem:

1. FEA has ruled that oil from Elk Hills will be treated essentially the same as foreign oil for purposes of the old oil entitlements program. The net effect is that the Elk Hills oil is worth more on the market than it would be if FEA had ruled otherwise.
 2. This ruling apparently was not known to all potential bidders before the sale. FEA indicates that its intentions were made known but apparently were not well understood, even by the Navy. FEA sent its formal ruling to the Federal Register on May 25, (the day before the sale) and it appeared three days after the sale.
- U* *11*

3. Navy is now getting complainits that (a) the sale was unfair because the ruling was not known to all potential bidders and (b) the bids were less than they might have been if everyone knew of the ruling.
- . Options being considered by Navy include (a) do nothing, (b) cancel the sale and hold a new one, and (c) let the existing sale stand and hold another sale in about 90 days for the remaining oil. If Navy cancels the sale, there would be a net delay of about five weeks in getting Elk Hills into production. Initial production had been planned for the first week in July.



THE WHITE HOUSE
WASHINGTON

Mr. Cannon:

This came under personal,
confidential -- should this
be staffed out to Schleede
or do you want to handle
yourself?

- (Gley)*
- 1) What do we need to know that we don't know now?
 - ^k 2) What is best way to get the info we need?
 - 3) Which option do you recommend?



FEDERAL ENERGY ~~ADMINISTRATION~~ OFFICE

WASHINGTON, D.C. 20461

August 4, 1976

OFFICE OF THE ADMINISTRATOR

Safe
File

PERSONAL AND ~~CONFIDENTIAL~~

MEMORANDUM FOR JAMES CANNON ✓
ALAN GREENSPAN
JAMES LYNN
ELLIOT RICHARDSON
CHARLES ROBINSON
BRENT SCOWCROFT
WILLIAM SEIDMAN

FROM: FRANK G. ZARB *FZ*
SUBJECT: OIL COMPANY NEGOTIATIONS ISSUE PAPER

The attached draft issue paper addresses an obviously important question. I would appreciate your personal review and a response reflecting your views by COB August 13.

Attachment

Determined to be an
Administrative Marking



By MD NARA, Date 4/15/2015

OIL COMPANY NEGOTIATIONS ISSUE PAPER

Issue: What should be the U.S. Government policy with respect to reporting concerning crude oil negotiations, transactions, and contracts between U.S. oil companies and foreign governments?

Background:

The Embargo of 1973-1974 accentuated and gave impetus to continuing public concern over the degree of oversight exercised by the U.S. Government with regard to the dealings of U.S. oil companies and oil-producer governments. Senators, Congressmen and other interested parties have called repeatedly for some increased U.S. Government role such as establishment of a U.S. Government oil company or purchase agency, or alternatively, for divesting the oil companies of part of their assets, or both.

In 1974 and again in 1975, legislation has been introduced to mandate formal FEA prior review and approval of foreign oil contracts. Similar concerns have led to the inclusion of a Technical Purchase Authority provision (S. 456) in the EPCA, and to various legislative proposals to implement "vertical" or "horizontal" divestiture of oil company assets and operations.

To date, the Administration's response to these proposals has been the assertion that existing monitoring of such transactions is sufficient, and that the FEA Transfer Pricing regulations, domestic anti trust law, informal (and voluntary) consultations with the companies, and the expanded role of the IEA Standing Group on Oil Markets, present adequate safeguards for U.S. national interests.

Expanded government monitoring might have several positive results:

- Increased government understanding of oil market operations, especially if interpretive material is also required.
- Establishment of a base for development of more sophisticated price containment strategies.
- Easing of unfocussed negative feelings about the companies through public awareness of government monitoring of oil company dealings.
- Discouragement of Congressional initiatives for more disruptive actions in the international oil market.

On the other hand, additional information collection implies further intervention into the oil market, and might compromise private negotiations. Moreover, no clear need has been established for additional information

Discussion:

I. Existing Authorities and Practices

A. Federal Energy Administration. FEA has broad information collection authority. Under Section 13 of the FEA Act, the Administrator is required to "collect, assemble, evaluate, and analyze energy information ... to permit fully informed monitoring and policy guidance with respect to the exercise of his function under this Act." Since one of the Administrator's functions under the FEA Act is to carry out responsibilities granted by Congress under other laws, Section 13 allows the Administrator to collect data needed for policy formulation with respect to the EPAA, EPCA, or other statutes. This authority appears broad enough to support a requirement that companies submit copies of their overseas crude oil acquisition contracts and reports with respect to other agreements. A justification for the necessity of such information could be based upon the Administrator's responsibility under the FEA Act to advise the President and the Congress on the integration of domestic and foreign policy relating to energy resource management.

The authority contained in Section 11 of the Environment Supply and Energy Coordination Act (ESECA) authorizes the collection of information necessary to formulate energy policy or for carrying out the purposes of ESECA or the EPAA. This broad authority could also be used as a justification for requiring the submission of contracts.

The FEA is already collecting detailed prices and cost information on foreign crude oil in order to control "transfer" prices between domestic oil companies and their foreign affiliates and to meet the United States' obligations in the International Energy Agency. For transfer pricing FEA is collecting from U.S. companies and subsidiaries:

- acquisition prices and transportation costs on an individual shipment basis for all crude oil imports.
- prices and contract periods for all third-party sales worldwide for all crude oil types used in the United States.

- acquisition costs on a quarterly basis for all major crude oil streams.
- volumetric data on crude sources and disposition worldwide as between third-parties and affiliates.

Other, related regulatory or information-gathering activities are carried out by the U.S. Government in connection with its obligations to the International Energy Agency (IEA), and by the IEA itself.

The Federal Energy Administration prepares and submits to the International Energy Agency (IEA) quarterly reports on prices and costs of major crude oil streams. The price information submitted to IEA is derived directly from FEA's transfer pricing records. Crude oil cost data represents the cost to U.S. oil companies of acquiring crude oil, whether that crude is delivered to the United States or to other world markets. The information is derived from a separate reporting system in which companies report separately their costs of acquiring crude oil from equity producing interests, as a consequence of special buy-back arrangements which evolved from earlier concession agreements, or through direct purchases from the host producing governments or their national oil companies.

IEA also supplements its knowledge of major oil supply contracts through direct, formal and informal consultations with the oil companies. Frequently a company will initiate such a consultation to keep FEA advised of its activities; on other occasions FEA will invite a company's representative to consult.

To date formal consultations have been held with three U.S. and three foreign based companies; additional consultations are being scheduled.

B. Security and Exchange Commission. The SEC also gathers information on company/producer country agreements under two separate authorities. Any company making a public offering must file an S-1 form with the SEC. Information on supply agreements would be included in this filing. Such information is usually public although a company may request confidential treatment. Since oil companies make few public offerings, information gained under this authority is limited.

Oil companies are also subject to the Securities Act of 1934 which requires current reports (8-K) in certain circumstances. The 8-K report includes information on "material contracts" - those significant to company operations. There is, however, enough latitude in the definition of materiality so that information gathered under this authority does not significantly add to that otherwise available.

C. [Other: Treasury, State]

II. Potential Problems of Additional Information-Gathering

A. Which agreements should be monitored?

Approximately 24 MMB/D of oil was imported from Arab and non-Arab sources in 1975 by the developed nations of the West. Given this level of trade, complete monitoring is impractical and U.S. participation should be limited to significant trades, but the definition of significant trades presents certain problems. Obviously, the trades that most concern the U.S. are those which have a major, or at least noticeable impact, on the price of oil products in final markets in the U.S., to particular sources of supply. Several factors determine the impact of an agreement on the market - the size of the contract, provisions for underlifting, credit terms, length of contract, and size of company market share and profit, and the extent to which an agreement departs from existing industry practices. Criteria for determining which agreements should be subject to monitoring should be developed after careful study. The definitions of "significance" could probably be established in such a way to ensure that virtually all negotiations involving OPEC governments would be subject to mandatory reporting.

It should be noted that the many arrangements do not result in formal contracts and any reporting requirements to be meaningful would have to extend beyond purely formal agreements.

B. Confidentiality.

Increased information collection by the federal government raises problems with regard to the ability to protect proprietary information against disclosure. In the case of post agreement filings, information would not be as sensitive as that with respect to negotiation in progress, but even with post agreement filing, sensitive and valuable proprietary information may be involved. Proprietary data is protected under the Freedom on Information Act from public disclosure. It is unlikely, however, that FEA could refuse a Congressional request for this information, in such event, FEA would not have direct power to protect the information.

C. Mandatory Reporting.

Information concerning negotiations is now provided voluntarily, and increased information could be requested on a voluntary basis. This represents a less intrusive form of intervention. On the other hand, it leaves the initiative with the companies and may not create public confidence in the exercise.

D. Lack of Substantive Policy.

The U.S. Government currently has no substantive policy with respect to its role in international oil negotiation, and negotiations to this point have been left strictly to the companies. Collecting additional information creates its own impetus for further government action in this area, and prior to extending present data collection, it may be desirable to more sharply define the Administration's policy toward oil company negotiations.

Option 1: The U.S. Government should continue current regulatory and monitoring practices.

PROS:

- System is in place and provides information needed to carry our current regulations.
- International submissions meet the needs of the IEA.

CONS:

- Lack of action may be politically non-viable, perceived as excessively pro-business attitude.
- Current practices may not provide necessary information for development of sophisticated international oil policy.

Option 2: The U.S. should require post-agreement filing of reports detailing significant producer country/oil company agreements.

PROS:

- Would increase documented store of government information on company/OPEC dealings.
- Would increase company transparency and might alleviate public concern that companies are not acting in the national interest.

CONS:

- Information gained might not be significant.
- Appears contrary to the Administration's current deregulatory thrust, which is to reduce Administrative burden.
- Protection of proprietary information would be necessary and might prove difficult.
- Need for additional information has not been established.

Option 3:

This option would increase monitoring activities by requiring more information during the course of negotiations, either on a voluntary or mandatory basis.

Option 3a: The U.S. Government should request company briefings on in-progress negotiation of significant agreements.

PROS:

- Could increase government knowledge of industry/producer relationships.
- Would heighten public perception of company transparency.
- Administrative costs are minimal since charge from present system is not major.

CONS:

- Same as Option 2.
- Provides no sanctions if companies are not acting in the public interest.

Option 3b: The U.S. Government should require company reporting on significant negotiations in-progress.

PROS:

- New government initiative which would serve to increase knowledge about industry/producer relations.
- Might increase public confidence in government oversight and avoid more disruptive Congressional actions.

CONS:

- Might appear to OPEC as U.S. Government interference in negotiations and thus confrontational.
- Would cover sensitive and proprietary information with attendant problems of confidentiality.

CONS, (continued):

- Might not result in strengthened U.S. position with respect to the cartel.
- Represents further government intervention into oil industry without demonstrable benefit, especially in light of still undefined government policy towards such negotiations.