MEMORANDUM 8115

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

MEMORANDUM FOR: THE PRESIDENT

FROM: BRENT SCOWCROFT

SUBJECT: Conference Energy Bill

I have examined Frank Zarb's memo to you on the Conference Energy Bill and concluded that, from a foreign policy point of view, the Bill on balance merits your signature.

From my perspective, the following points are key:

-- From a foreign policy point of view the main impact of the Bill is to slow down the timetable of our reduced dependency effort. The "domestic composite" pricing scheme will almost certainly lead to greater dependence on OPEC oil over the next three years than would immediate decontrol, and thus fall sharply behind your State of the Union targets. It is, however, unlikely that dramatic progress in reducing our dependence on OPEC can be made during this three-year period in any case. Even under immediate decontrol US imports will be 8 million bpd at the end of three years as opposed to roughly 9 million bpd under the most unfavorable scenario under the Conference Bill.

We will begin to have a chance to put real pressure on OPEC only at the turn of the decade. At that time, the Conference Bill will have enabled us to catch up in our efforts to reduce dependence by increasing prices substantially and thereby providing a strong incentive to produce and conserve. And decisions made over the next couple of years in anticipation of the higher energy prices in 40 months will have brought about important structural changes such as greater use of energy efficient industrial equipment and cars. Thus, while we will move more slowly towards the desired objectives we still will have a firm basis for reducing dependence.

~~SECRET~~/GDS
DAD, 12/5/86

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-- You have the ability to exert pressure for higher prices than currently set in the Bill in February, 1977, and every ninety days during the 40-month life of the agreement. This becomes a stronger lever as dependence on OPEC oil climbs as the result of the initial price reductions legislated by the Bill.

-- Stockpiling authorities in the Bill would enable the US to begin moving promptly to build reserves and thereby to lower our vulnerability to embargoes.

-- Authorities required to implement our commitments for sharing and conservation under the International Energy Program are contained in the Bill.

-- Authorities for the USG to buy and sell foreign oil are also contained in the Bill. This would enable us to undertake bilateral deals with USG participation such as we could not do in the case of Iran and the Soviet Union.

-- There appears to be a strong preference from our allies for having a firm base for slower but more certain progress toward reduced US dependence as opposed to a fragile base for quick and ambitious progress as under immediate decontrol. Congressional attempts to relegislate rollbacks or controls, perhaps of a highly stringent nature, or to enact other punitive measures against the companies, would create greater international uncertainty than that in the Conference Bill's Congressional review process.

-- The adverse impact on the US economy of immediate decontrol (CEA estimates 1.2% decline in GNP and .3-.4% increase in unemployment by the fourth quarter of 1976; Treasury estimates 1.2% decline in GNP in 1976 and .2% increase in unemployment) would be a psychological and economic blow to our trading partners who, as expressed at Rambouillet, see our recovery as vital.

RECOMMENDATION:

That you sign the Energy Bill.

THE WHITE HOUSE

WASHINGTON

December 18, 1975

MEMORANDUM FOR: JIM CONNOR

FROM: JIM CANNON

SUBJECT: Energy Bill - S. 622

After reviewing Frank Zarb's book, I concluded that we couldn't add anything to our previous memorandum in terms of substance or recommendations.

However, we have reviewed the materials provided by FEA, CEA and OMB to identify the major issues. There is attached an outline that identifies the major points on which there seems to be disagreement among the various parties.

I suggest that you consider giving this to the President as a guide that he might follow in bringing out the views of his advisers on the bill.

TALKING POINTS - OMNIBUS ENERGY BILL

I recognize that there is some lack of agreement among you as to the substantive and political merits of signing or vetoing the bill, and as to the probable energy and economic impacts -- depending on whether I sign or veto the bill or whether existing controls are extended.

I'd like to discuss the substantive impacts first, come back to the political implications, and then discuss the alternatives we have.

I. SUBSTANTIVE IMPACT

Let's start with pricing provisions and then cover other provisions.

A. Pricing Provisions of the Bill

First, I'd like to understand better the various assessments of the substantive impact if:

. the bill is signed.
. we have immediate decontrol.
. existing controls are extended.

1. Consumer Prices for Oil. What will be the immediate impact on consumer oil prices assuming decontrol and removal of the import fee? (FEA is estimating about 6¢; CEA predicts smaller increase.)

   - When would such increases occur? (CEA and OMB believe no immediate increase because of depressed market for oil and ample stocks.)

   - Will some regions be hit harder than others (e.g., New England)?

2. GNP, CPI and Unemployment. What are your best estimates of the impact on GNP, the Consumer Price Index and unemployment of immediate decontrol?

3. Monetary Policy Offset. How would changes in monetary policy affect the real GNP and unemployment affects of immediate decontrol?

4. Congressional Approval of Increases. If I sign the bill, what are the chances that Congress will go along with proposed price increases during 1976? In the future?

5. Incentives for Domestic Oil Production. What will be the impact on incentives for domestic oil production -- with or without the bill? Argument here depends heavily on what one believes will happen at the end of 40 months, particularly what industry thinks will happen on price decontrols.

   . What is the likely price differential between Domestic and world oil prices after 40 months?

   . Will there be pressure to continue controls?

   . Do controls end after 40 months? (You would have to make determination that controls were no longer needed. Otherwise they continue.)

6. Alaskan Oil. How does the Alaskan oil price setting process work and how is Congress likely to handle our proposals?

7. Budget Impact. What are the budget implications -- in terms of receipts -- if we have immediate decontrol?

8. Propane. Is there likely to be a propane problem without the bill? (FEA assumes yes; OMB and CEA believe there will not be because natural gas shortages haven't materialized and propane stocks are high.)

B. Other Provisions of the Bill

1. Basic Approach. I understand that the bill relies much more on controls than we had proposed; e.g., mandatory appliance standards; auto fuel economy standards; FEA standards for energy conservation by industry and reports by individual companies to FEA. Is this a serious problem?

2. Strategic Storage Program.

   . How does the storage program differ from our proposal?

   . What are the budget implications of this requirement?

3. Standby Authorities. How do the standby energy conservation and rationing authorities differ from our proposal?

4. Other Differences. Are there other significant differences? (Examples are: GAO auditing, citizen suits, energy impact statements.)

II. POLITICAL CONSIDERATIONS

I understand that most major newspaper editorials have been against the bill and that the mail is strongly against it (10,000 for veto; 70 for signing).

How do you assess the political implications of signing vs. vetoing the bill?

III. ALTERNATIVES

What are the real alternatives if I veto the bill?

1. Propose some changes in S.622.
2. Propose new phaseout plan.
3. Propose extension of existing controls.
4. Immediate decontrol (plus windfall profits tax?)

THE WHITE HOUSE

WASHINGTON

December 18, 1975

MEMORANDUM TO THE PRESIDENT

FROM: ROBERT T. HARTMANN RTH

SUBJECT: H.R. 7014/S. 622, The Energy Policy and Conservation Act

This is a very close call. From the papers provided me by the Staff Secretary for comment I conclude that as a matter of the substance of the bill and its real impact on the energy problem and the national economy, I must agree generally with the position taken by Bill Simon who urges a veto.

From the standpoint of political advantage and justifying your decision, the pros and cons are so nearly equal that I think I could write a credible statement either way. Much of the steam has gone out of this issue since you held a clear advantage over the Congress earlier this year. Whether it would be better politically to claim a partial victory now and sign the bill or continue to castigate the Congress for failure to face the reality of increasing U.S. dependence on foreign oil is a moot question. Frankly I think the public has been aroused by your leadership to recognition of the long-range energy problem but continues to be completely bored by complicated and generally unpleasant detailed solutions.

There is some political advantage in demonstrating you are not afraid of the threats of the big oil companies which, justifiably or not, are universally distrusted. However, I am not sure the media and the Democratic opposition would permit this posture of standing up to the big oil companies to get through to the public. You stood up to the big New York bankers but got very little credit for it. Furthermore, this legislation, if it becomes law, would require you to go to the Congress at regular intervals and beg for price increases which the public would interpret as helping increase oil company profits.

It is this feature of the bill, which extends the Constitutionally outrageous idea that Congress should exercise

a veto power over the President that troubles me most. If this bill were standing in isolation from every other consideration, this alone would compel me to urge a veto.

Unfortunately, your decision on this bill is going to be considered together with your decisions on the tax cut and on common situs picketing. Your natural Republican and conservative constituency overwhelmingly wants you to veto all three. In principle so do I.

If you veto all three at the end of this session, however, it will surely contribute to the negative impression that you are powerless to do anything in your struggle with the Democratic Congress except use your veto and that, therefore, the Federal government is in a stalemate. It will be said that you lack the ability to move the country forward and contribute to the Reagan and Democratic theme that yours is merely a caretaker Presidency. If you feel compelled on conviction to sign any of these three controversial bills, the energy bill would be the one from which some advantage might be extracted and you could leave the impression that you considered each case on its merits and are not simply stuck in a "veto everything" rut.

Recommendation: If you intend to veto situs picketing, hold your nose and proclaim that you have finally persuaded Congress to adopt an imperfect national energy program which can be further perfected next year. The big oil companies' bark will undoubtedly prove worse than their bite. But if you do sign situs picketing you almost have to veto the energy bill.

cc: Jim Connor
Dick Cheney

THE WHITE HOUSE

WASHINGTON

December 6, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: Energy Bill

The decision you face regarding whether to sign the energy legislation which has emerged from the Conference Committee is a difficult one. On balance, I recommend signing the legislation for the following reasons:

1. It provides adequate investment incentives to produce new oil -- the single most important objective.

2. It sets a national energy policy that, while delayed, is a sound step in the right direction. In a wide variety of areas the legislation follows your original recommendations and significantly adopts an approach utilizing the price mechanism rather than some form of rationing.

3. It represents a substantial legislative achievement in the face of difficult odds. When you proposed your national energy program in January there was a widespread lack of recognition of an energy crisis and a Democratic Congress opposed to utilization of the price mechanism to achieve reduced consumption and to increase the supply.

4. Most Americans will be relieved for a resolution of the protracted confrontation between the Administration and the Congress on energy. Moreover, the average American resents being subjected to OPEC cartel oil prices and will approve of a program which precludes the United States, in effect, joining the OPEC cartel.

5. The bill demonstrates that the oil companies do not control Washington.

I am personally convinced that the predicted dire effects on exploration and production made by many opponents of the bill are overstated. However, the fact remains that signing the bill entails heavy political costs, particularly in some areas involving key primaries.

THE WHITE HOUSE

WASHINGTON

December 18, 1975

MEMORANDUM FOR: JIM CONNOR

FROM: PHIL BUCHEN P.

SUBJECT: Frank G. Zarb's memo re: H.R. 7014/ S.622: The Energy Policy and Conservation Act

I concur with Bill Seidman's recommendations as stated in his memorandum of December 6, 1975, (Tab K).

December 18, 1975

MEMORANDUM FOR: JIM CONNOR

FROM: MAX FRIEDERSDORF

SUBJECT: Frank G. Zarb's memo re: H.R. 7014/S.622
The Energy Policy and Conservation Act

I recommend the President sign S.622.

Although it appears a veto could be sustained, the continued uncertainty on national energy policy and the possibility of immediate decontrol mitigate against a veto.

The President has focused public and Congressional attention on the energy problem, but S.622 represents the best bill we can expect from this Congress.